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# **China Report**

**ECONOMIC AFFAIRS**

**No. 86**



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CHINA REPORT  
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## CONTENTS

## NATIONAL ECONOMIC POLICY

Greater Powers for Enterprises Suggested (XINHUA Domestic Service, 5 Sep 80).....	1
Better Management in Enterprises Urged (Editorial; RENMIN RIBAO, 28 Aug 80).....	4
Economic Journal on Economizing on Use of Land (Zhang Zhen Ming; JINGJI GUANLI, 15 Jul 80).....	8
Sichuan's Development Viewed by Government Official (Tian Jiyun; JINGJI YANJIU, 20 Jul 80).....	15
Role of Local Planning in National Economy Explained (Zuo Mu; JINGJI YANJIU, 20 Jul 80).....	28
Advantages of Joint Agricultural, Industrial, Commercial Enterprises (Wang Songpei; JINGJI YANJIU, 20 Jul 80).....	36
Planning in Order of Agriculture, Light Industry, Heavy Industry Discussed (Wang Yongxin; JINGJI YANJIU, 20 Jul 80).....	48
Relationship Between Stabilization, Adjustment of Prices Justified (Ji Zhengzhi; JINGJI YANJIU, 20 Jul 80).....	62
Economic Journal Discusses Internal Price Calculation System (JINGJI GUANLI, 15 Jul 80).....	73

Economic Journal Discusses Goods Circulation (Li Huang; JINGJI GUANLI, 15 Jul 80).....	83
<b>ECONOMIC PLANNING</b>	
Beijing Providing Bank Loans for Private Businesses (XINHUA, 13 Aug 80).....	88
Priority Increase of Means of Production Defended (Wu Xiangzhong, Chen Bogeng; JINGJI YANJIU, 20 Jul 80).....	90
Cooperative Network for Heat Treatment Specialization Discussed (Yang Dexiang; JINGJI GUANLI, 15 Jul 80).....	98
Old Residential Quarters Renewed in Beijing (XINHUA, 6 Sep 80).....	101
<b>Briefs</b>	
Commercial Workers Training	102
<b>GENERAL ECONOMIC INFORMATION</b>	
<b>Briefs</b>	
Nanchang Increased Revenue	103
CAAC Guangzhou Bureau	103
Jilin Journalistic Coordination	103
Heilongjiang Labor Protection	104
<b>FINANCE AND BANKING</b>	
Beijing Expands Neighborhood Collective Enterprises (XINHUA, 28 Aug 80).....	105
<b>Briefs</b>	
Qinghai People's Bank	107
Guangdong Hold Conference	107
Northwest Savings Conference	107
Bank Interest Rates	108
Zhejiang Bank Loans	108
<b>FUELS AND POWER</b>	
<b>Briefs</b>	
Hydroelectric Power Stations	109
Ningxia Power Generating Unit	109
Qinghai Power Station	109
Guangxi Power Station	110
Hubei Power Stations	110
Hydropower Meeting	110

Zhejiang Hydroelectric Project	111
Daqing August Production	111
Liaoning Energy Utilization	111
Energy-Saving Equipment	111

#### MINERAL RESOURCES

<b>Briefs</b>	
Liaoning Gold Production	112

#### HEAVY INDUSTRY

<b>Briefs</b>	
Guangdong Construction Materials	113
Qinghai Auto Industry	113
Shandong Industrial Structure	113
Zhejiang Safety Measures	113

#### CAPITAL CONSTRUCTION

<b>Briefs</b>	
More Tourist Hotels	115
Jilin Rural Housing Project	115

#### DOMESTIC TRADE

<b>Briefs</b>	
Heilongjiang Opens More Markets	116
Tianjin Grain Coupons	116

#### FOREIGN TRADE

<b>Briefs</b>	
Shanghai Garments Export Fair	117
Shanghai Textile Machine Exports	117
Welding Rods for Export	117

#### TRANSPORTATION

<b>Briefs</b>	
Hebei Highway Construction	118
Lanzhou Awards Meeting	118

#### PUBLICATIONS

<b>'RENMIN RIBAO' Carries Contents of Management Journal (RENMIN RIBAO, 30 Aug 80).....</b>	119
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<b>Briefs</b>	
Mechanics Weekly	121
Natural Science Chronicle	121
New Science Journal	121

NATIONAL ECONOMIC POLICY

GREATER POWERS FOR ENTERPRISES SUGGESTED

OW060044 Beijing XINHUA Domestic Service in Chinese 0702 GMT 5 Sep 80

[Article by XINHUA commentator: "Give Still Greater Self-Management Powers to the Enterprises"]

[Text] Beijing, 5 Sep (XINHUA)--There are now more than 6,000 state industrial enterprises in our country that are expanding their self-management powers on an experimental basis. The economic results of increased production and increased income as well as a series of new management changes by these enterprises have manifested the great and far-reaching significance of this restructuring of our system of economic management. The question now is how to continuously solve the existing contradictions between this restructuring and the current management system and give still greater self-management powers to the enterprises in order to progress in the work of a more extensive restructuring of the economic management system.

Since experiments in expanding the self-management powers of enterprises were started, there have been changes in the regulations and systems unsuitable for the experiments and the economy has become more active. However, it should be noted that quite a few of the conventions and restrictions fettering the enterprises still remain. Despite repeated calls by the party Central Committee and the State Council for expanding the powers of self-management enterprises, some localities still have not done well in implementing the principles and policies on this power expansion due to the fact that in some departments the regulations and systems are still the old ones.

At present, the expansion of self-management powers for the enterprises calls for not only continued efforts to improve and perfect the methods of profit sharing but also active efforts to expand the enterprises' powers in the areas of planning, goods and materials, marketing, labor and personnel. An enterprise may, under the condition that its fulfillment of the task to supply commodities as set in the state plan is guaranteed, arrange for production of commodities in addition to what is called for in the state plan or undertake such production in cooperation

with other enterprises. Aside from the goods and materials supplied by the state according to its plan, all enterprises may purchase whatever additional goods and materials they need. The contracts and agreements signed between enterprises should be protected by the state law. A limited number of key enterprises may have the power to engage in foreign trade with the approval of department concerned, if they are qualified. All provinces, municipalities and autonomous regions should also select several of their enterprises to experiment with the practice of "carrying out independent accounting, paying taxes to the state and being responsible for their own profits or losses." In short, we should see to it that, under the guidance of the state plan, the enterprises will have still greater self-management powers than they have now in the areas of personnel, finance, materials, supply, production and marketing.

All economic reforms now being carried out must be conducive to the needs of the expansion of enterprise self-management powers. For example, there is the question of "where does the power come from" for the leading organs of the corporations that have been formed in some localities in the course of integrating the various economic sectors. Once a corporation is set up, it, of course, should have functions and powers. But it should ask the leading departments in charge for such powers. The leading departments in charge should authorize the corporation to have powers commensurate to its functions. But these powers must not be those already given the enterprises subordinate to the corporation. In other words, the powers of the enterprises must not be concentrated in the hands of the corporation. If this is not done, it would be inevitable for the enterprises to find that in addition to the "boss" they have in the leading departments in charge, they have another "boss" in the corporation. Thus the enterprises would have more restrictions and fewer self-management powers.

Some comrades set the expanded self-management powers of the enterprises against the leadership of the leading organs. In their opinion, since the expansion of enterprise self-management power is to be emphasized, there is no longer the need for them to be concerned about the enterprises can be left alone. This is a misunderstanding. The question is not whether there is the need for leadership; rather, it is now to lead well. Leading organs at all levels must adapt themselves to the new situation to improve and strengthen their leadership, make conscientious efforts to do well in providing services, conducting unified planning and coordination and exercising supervision and to solve new problems in good time. They must cut down on unreasonable administrative interference with the enterprises, instead they should use economic means for managing them. It is correct for the leading organs to set plans in an instructive manner for the enterprises, adopt necessary administrative means to insure fulfillment of the state plan by the enterprises and make sure that the enterprises organize their activities in the spheres of production and circulation in line with the purposes of socialist production.

In the future the leading state departments should exercise their leadership over the enterprises mainly by policies and decrees and by giving fuller play to the regulatory role of such economic levers as tax revenues, prices and credit loans. They should gradually restrict the practice of setting plans for the enterprises as instructions and expand the practice of drawing up plans that have the nature of forecasts and guidance. They must strive to see that the enterprises are liberated from too much administrative interference from the leading departments.

As for the enterprises themselves, there is the question of "to whom the expanded powers should be given" when they are expanding their self-management powers. Since an enterprise is an integrated body in which laborers work jointly, it should be clear that to expand self-management powers is in fact to expand the powers of its workers and staff in managing the enterprises as masters. There are some comrades who are worried that the leaders of an enterprise may abuse the expanded powers. Their worries are justified. To avoid this, it is necessary to successfully promote democratic management in an enterprise while expanding its self-management powers by establishing and perfecting the system of a congress of the workers and staff and by giving full play to and safeguarding the powers and role of this congress in managing the enterprise. All important matters, such as the formulation and revision of important regulations and systems, the enterprise's long-term development plan and annual plan, where the development fund of the enterprise is to be used and the plan for technical innovations for production, must be discussed and examined by the congress of the workers and staff. A congress of the workers and staff should be empowered to exercise supervision over the cadres at all levels in an enterprise with respect to the latter's efforts in implementing the party's line, principles and policies. The congress can make suggestions, subject to examination and approval by the higher level leading organ, on commendations, rewards, punishments or removal of leading cadres. All matters that have a direct bearing on the personal interests of the workers and staff, such as the distribution and use of their welfare and reward funds and the plan for wage adjustments, should be decided only after a discussion by the congress of the workers and staff.

The expansion of powers of self-management of the enterprises represents a fundamental link in the restructuring of China's economic management system. It is an effective approach to enliven the economy and promote the development of production. Practice in the various localities has already eloquently demonstrated that this expansion can mobilize the initiative of the enterprises and their workers and staff and that it has already brought gratifying results in strengthening the concepts of management, market, service and competition among the workers and staff, improving management and raising economic results. China has more than 300,000 industrial enterprises. They have considerable value and area as a base for us to promote the four modernizations. Successful accomplishment of this work of expanding self-management powers of the enterprises will surely prove useful to tapping the existing potential of the enterprises and raising China's industrial production to a new level. The leading economic departments must make do this restructuring work well and create still more favorable conditions for the enterprises to expand their self-management powers.

NATIONAL ECONOMIC POLICY

BETTER MANAGEMENT IN ENTERPRISES URGED

HK070534 Beijing RENMIN RIBAO in Chinese 28 Aug 80 pp 1, 2

[Editorial: "Learn To Use Scientific Methods to Successfully Manage a Modern Large Enterprise"]

[Text] Shanghai petrochemical plant has reported inspiring glad tidings: since it was completed, inspected and accepted in June last year, 18 sets of production installation have been safely, steadily and continuously operating at full capacity. This is China's biggest chemical fiber plant, in which some 2 billion yuan was invested; it imported much foreign advanced technology and equipment and, due to good management, reached its scheduled comprehensive production capacity and gained good economic results within a comparatively short time. The experience provided by Shan Hai Petrochemical Works merits attention.

Why could Shanghai petrochemical plant attain its comprehensive production capacity according to the original plan? At the outset of its construction, it first formulated its policy and plan on the basis of scientific analysis. Practical experience has told us: the waste caused by improper and careless policy and plan is very shocking and can hardly be remedied afterwards. To build a large project, it is at least necessary to grasp three things well:

First, it is necessary to select a good site for a plant. A large modern enterprise sets relatively high demands on the conditions for resources, energy resources, industrial cooperation, communications, transport, source of water, geology, the technological and cultural quality of the forces of staff and workers, and so on. With these necessary conditions, we can build a plant comparatively smoothly and fundamentally guarantee normal production. If we allow a small number of people to make a rash decision on assumptions without scientific analysis, there will be no end of trouble for the future. Under the influence of the ultraleftist line during the 10-year catastrophe, many plants did not do well in selecting factory sites and thus caused great irretrievable loss. By negative example, this has proven the importance of this problem.

Second, it is essential to properly select technology and equipment. Proceeding from our country's actual situation, we must take their advanced levels, suitability and reliability into consideration at the same time. Generally speaking, key technology and equipment must be more sophisticated. However, we must make more use of suitable "intermediate technology" so as to save investment a little, shorten the work period a little and perform operations a little more successfully. We can thus achieve the desired economic results. What is wrong with that? We must manufacture as far as possible complete sets of equipment which can be designed and manufactured at home. We can thus not only save investment but also guarantee supply of the spare parts for repair purposes after equipment is completed and put into operation. If we are divorced from reality and attach importance only to highly automatic and advanced technology and equipment, the result will be that we must increase our investment and cannot tackle the technological and administrative problems. We cannot even insure normal operation and production. We cannot bring into play technology and equipment however advanced they may be. Such a lesson must not be repeated.

Third, we must insure coordination of the principal part of a project with its supplementary projects; production installations with public utilities such as water, electricity, petrol and gas; production facilities with living facilities; and the progress of building a plant with the progress of making arrangements for the complete sets of equipment, raw materials and foreign parts. In general, we must systematically analyze the factors for building the project of a large modernized enterprise and for the various items involved in its production. Over the past years, some scientists of our country have preached modern administrative science such as "systematic project," which is conducive to formulating policy decisions and plans more properly and carefully. We must strive to study and apply it. In building and administering a large modern enterprise, it will not do to act on assumptions and follow conventions.

We must get familiar with and master advanced technology and equipment. We can thus bring them into full play. This requires us to study humbly. We must not only "know the hows" in order to skillfully operate them but also "know the whys" in order to master them. The technology and equipment of large modern industrial enterprises are very complicated and delicate. Therefore, at the outset of their construction, we must regard mastering advanced technology and equipment as an important subject. We must master both technology and equipment manufactured at home and abroad. At the stage of construction, we must organize specialized forces to master imported technology and equipment; organize grassroots cadres and production workers to install and test equipment; and through on-the-spot training, closely link construction with production. We must give full play to the role of the technological personnel employed from foreign countries. With their assistance, we must understand and master in an all-round way technology, functions of equipment and the main points of operation. Now nobody regards advanced technology

and scientific administration as "the stuff of the bourgeoisie," adopts attitude of despising them and commits the folly of criticizing them. However, some people still do not pay attention to cooperating with and seriously learning from technological personnel who have been employed from foreign countries with foreign exchange, with the result that they cannot master and use very well imported advanced technology and installations and cannot adopt scientific administrative measures provided by them. A very big loss is thus caused. This situation must be changed as quickly as possible.

To administer large modern enterprises, it is essential to do all items of fundamental work well, vigorously raise the levels of production, technology and administration and insure safety, steady and continuous production. We must rely on science to manage large modern enterprises. We must establish a sound and clear post responsibility system and formulate scientific and strict regulations governing technology and operations. Through scientific analysis and scientific determination, we must establish all kinds of working standards. We must help staff and workers to quickly master fundamental technological knowledge, working skills and so on. Through making efforts in these aspects, we can organize scientific, rational, proper and reliable production. We can thus promote output, improve quality of products and achieve economic results.

Whether the management of large modern enterprises is good or not has an extremely important effect on the national economy as a whole. To manage large modern enterprises, we must be economically-minded and acquire professional knowledge. Judging from the present situation of our country, the standard of enterprise management awaits improvement and the standard of business transaction is very low. We lack people who know management. People who are good at business transaction are even fewer in number. While doing well in grasping production, technology and management, we must therefore strive to enhance our ability in "transaction," invest our money in proper enterprises, produce marketable products, quickly circulate capital, use it efficiently, have a clear picture of domestic and foreign markets and carry out successful competition. To do these well, we must give enterprises more right of self-management. If we impose too many restrictions on enterprises, it will hinder the development of the enterprises. This situation must be changed.

As a result of construction for 30 years since the founding of our country, all industrial departments now have a number of large modern enterprises. In the wake of the progress of the four modernizations, we shall have more and more large modern enterprises. Our country is a developing country and the people throughout the country have been living frugally. It is not easy for the country to concentrate an investment of several ten or hundred million or even several billion yuan on building a large modern enterprise. If, after the enterprise is built, it cannot "master"

advanced technology and equipment and makes a mess of production and management, and thus cannot attain its predetermined production level and pay off its investment for a long time, with even accidents frequently occurring, an enormous amount of investment will be wasted and we shall certainly fail to live up to the expectations of the people throughout the country. Therefore, all industrial enterprises throughout the country, particularly large modern enterprises, must seriously sum up experience, emancipate the mind, seek truth from facts, constantly improve their scientific administrative level and scale new heights.

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## NATIONAL ECONOMIC POLICY

### ECONOMIC JOURNAL ON ECONOMIZING ON USE OF LAND

KH041057 Beijing JINGJI GUANLI in Chinese No 7, 15 Jul 80 pp 10-12

[Article by Zhang Zhen Ming (1728 2182 6900): "To Economize on the Use of Land Is an Urgent Problem"]

[Text]

1

Land is the basic production material for agriculture. It is also an important production material for industry. The plant buildings, roads, pipelines and warehouses of the departments of industry and communications and transport are all inseparable from the use of land. Likewise, other departments of the national economy and the various trades and professions of the social structure are inseparable from the use of land. The entire development of social production, the improvement of the people's livelihood, the balancing of nature's ecology and environmental protection and improvement are all closely related to land utilization. Hence the effective control and rational use of land has become an important lesson in the scientific management of the national economy in countries all over the world.

An outstanding contradiction in the construction of the four modernizations in our country is our enormous population pitted against a shortage of arable land. This is a big obstacle blocking the way to the accomplishment of the four modernizations. The way to solve the contradiction is on the one hand to control the growth of the population in a planned manner, and on the other to effect planned economy in the use of land. If neither of these objectives is properly achieved, the foundation of our socialist economy will not be stable, the national economy will not be able to sustain a high degree of development and the people's lives will not be able to be improved to any great extent. Concerning population economics, our academic circles have already engaged in lively discussions, while both the party and the government are actively propagandizing and solving the problem of a planned birth rate, and certain results have been achieved. Unfortunately, the study and application of land economics, has yet to be brought to people's attention. The problem of economizing on the use of land has been treated as a matter of far less strategic importance than that accorded to population control. This situation should be changed at once.

The total land area of our country is roughly 14.4 billion mu, the 3d largest in the world. It is composed largely of plateaus, mountains, grassland and deserts and there is only a small proportion of arable land. At present, the total land area under cultivation is nearly 1.5 billion mu, or about one tenth of the country's total land area. This averages out to 1.6 mu per capita or only one fourth of the world's average of 5.5 mu per capita. In 1957, the total land area under cultivation in the country was originally 1.67 billion mu. It dropped to below 1.5 billion mu in 1977. Over the past 20 years, capital construction and natural disasters have cut down the total land area under cultivation by 500 million mu against which reclamation and the opening up of new farmland have added a total of 320 million mu. This is equivalent to a net reduction of some 180 million mu of cultivated land, or equivalent to the combined land area under cultivation in the three provinces of Sichuan, Guangdong and Guangxi. During the same period, the country's population increased by 300 million people, the nonagricultural population increased by 40 million but the per capita ratio of cultivated land continued to decrease. Because a rather large proportion of the land used for capital construction was near urban areas, the drop in the area of cultivated land on the outskirts of cities and towns was particularly conspicuous. For example, in Beijing Municipality there were some 9.10 million mu of cultivated land in the initial period after liberation. Now it has dropped to only 6.4 million, that is to say, a reduction of 2.7 million mu, or nearly 30 percent, over the past 30 years. Over the last 10 years, each year 20,000 mu of cultivated land were consumed for other uses. At this rate, in another 10 years, it will be equivalent to Haiding District, one of the three largest vegetable producing districts of the municipality, entirely disappearing from the scene. If peremptory measures are not taken at once to stop or curtail this trend, the outcome will be unthinkable.

Will the vigorous reclamation of waste land help to solve the contradiction of there being a big population and a scarcity of land? Looking at conditions over the past 20 years, each year an average of 16 million mu of waste land was reclaimed whereas 25 million mu of land was occupied for other uses. Not only was the speed of land reclamation far behind that of the use of land for nonagricultural purposes, but there were also many losses that could not be compensated for such as destroying forests to build farmland, abolishing animal husbandry for the sake of producing grain, building dikes to reclaim land from lakes, and so on. At the present moment, our country has already a scanty reserve of available waste land for reclamation, possibly less than 500 million mu, mainly scattered in such faraway regions as Heilongjiang Province and the Xinjiang Autonomous region. A large scale reclamation and construction campaign requires the mobilization of large quantities of manpower, material resources and funds and is certainly no easy job. Even if all the available waste land has been reclaimed, it is still doubtful that that present level of per capita cultivated land can be maintained.

These being the actual conditions, and while the construction of the four modernizations has just begun, we should firmly resolve to abide by the guidelines calling for treasuring cultivated land and practicing economy in the use of land. Accompanying the development of socialist construction

enterprises, it is probable that more and more cultivated land will be put to other uses and the total area of cultivated land will actually decrease day by day. For this reason, from now on we should pay important attention to continually strengthening management and control, to learning from advanced scientific techniques to save each and every inch of cultivated land, and to reduce to the minimum the use of land for nonagricultural purposes. We must also strive hard to raise the utilization rate and productivity of land. This is the only way out.

## 11

At present, many serious problems confront the use of land for construction purposes. They are:

### 1. Each Going One's Own Way, Duplicating Construction Projects and Wasting Valuable Land and Limited Resources

One of the actual phenomena is: Since there are numerous organizational units, each has its own offices, dormitories and subsidiary enterprises. Many of them, particularly the top level leadership organs, each have a complete set of office buildings, auditorium, truck fleet, warehouses and stores, nursery, hostel, hospital and print shop, but the utilization rate of each of them is very small. Another phenomenon is: Among the units taking charge of production, or supply of materials, or scientific and research work, a very serious state of duplication of construction work is in evidence. Among the production units, there is a general phenomenon of "old plants not running at full capacity while new plants are being erected." The departments handling material supplies have built warehouses one after another. Despite the fact that they occupy much land, incur large investments and employ a lot of personnel, the turnover of materials is still very slow. Among scientific research units, duplication in the importation of foreign technology or equipment and of work projects is frequently seen.

### 2. Much Cultivated Land Occupied But Waste Land, Land of Inferior Quality and Vacant Land Not Used

The state has stipulated: "Cultivated land and good farmland should not be requisitioned for other uses; if absolutely necessary, requisitions should be kept to an absolute minimum. Actual conditions have contradicted this ruling, particularly in large cities and towns. Generally speaking, in a city's outskirts, land is sparse and is good in quality but it is here that units prefer to requisition land for building purposes. There may be much waste land and vacant land further away from the city but no units wish to venture so far. According to statistics compiled by Beijing Municipality, over the past 30 years, of the land requisitioned by the state, 68 percent was cultivated land, most of which was concentrated in people's communes in 3 of the municipality's outskirts which supplied the municipality with vegetables.

3. Lack of Overall Planning: Jobs Done Piecemeal; Harassing the People and Draining the Treasury; Extremely Low Land Utilization Rate

The power of granting land for small projects and the building of small numbers of single storey houses is usually passed on to lower level organs, but the system of control is very lax. Some units adopt the policy of "hunting" or requisitioning land here and there, wasting land, manpower and material resources and building single storey houses on separate lots. Some land requisitioning units in control organs even occupy the land first and apply for requisitioning afterward. Practices of this in waste land and have injurious effects on the overall layout of a municipality.

Another phenomenon worthy of note is that a small number of cadres have vied for self-enjoyment. Employing both "legitimate" and illegitimate means, they have discarded their old houses and sought new ones, especially spacious and foreign-style buildings. They scramble with each other for the building of residences and private villas. Subordinate units are inclined to follow suit. They do not begrudge the wanton use of cultivated land and good farmland. Despite repeated orders from the central authorities, practices of this kind are still prevalent.

4. Requisitioning More Than Necessary; Tardy Use of or Failure To Use Requisitioned Land; Occupying Land First, Seeking Sanction Later; Occupying More Than Sanctioned or Without Sanction; Occupying Land Permanently Despite Only Temporary Sanction

Phenomena of this kind were extremely prevalent at the time when Lin Biao and the gang of four ran amok. Their remnant ill effect have still not been completely eradicated.

5. In Reality, State Has Lost Control of Use of Land in Rural Villages, Communes and Brigades

Large areas of land have been wasted by communes and brigades in setting up enterprises, or building residences for their members, or for burying the dead. In the use of land, some communes and brigades seized land at random and damaged much cultivated land. Over the past few years, one commune is known to have ruined over 500 mu of land (including cultivated land), causing a loss of some 250,000 jin of grain.

III

Over the past 30 years, the experiences, good or bad, socialist construction in our country have testified to the following: economizing on the use of land is the overall reflection of the level of management of the national economy. National capital construction requires the use of land while construction by the communes and brigades and the building of houses for their members also require the use of land. Readjusting and maintaining the ecological balance, converting a bad environment to a good environment,

developing the plantation trade, the upkeep and development of forestry, grassland, water surface areas, greenery and vegetation all require the use of land. These factors are all complex ones. They overlap and are interwoven, they involve many fields and call for the adoption of a strong policy of control. If we just look at things superficially and come up with temporary solutions to problems without getting at the root of the trouble, we will get nowhere. For example, the state's regulations governing the requisitioning of land stipulates the following: "In land requisitioning, the organization empowered to approve the first draft of the plan for the construction project is responsible for sanctioning the area of land to be used." But what are the principles which govern the approving organization in making a decision? Does it abide by the principle of building "large and comprehensive" and "small but comprehensive" projects or the principle of "specialization and coordination" and at the same time making a reasonable overall arrangement? These two principles will bring about two entirely different results. If only we can recall the sufferings in 1958 and during the period of the Great Cultural Revolution, the situation may be clarified. Once the national economy is devoid of scientific management, the control and use of land will necessarily cause confusion and may even court disaster. For this reason, to carry out effective control and rational utilization of land, we must abide by objective economic and natural laws and, starting with the overall situation of the national economy, effect a comprehensive balancing of all factors and make a unified plan with due consideration to all concerned. We must clearly demarcate what is rational from what is irrational, adopt effective measures and assert strict control.

In order to speedily correct the confusion in the use of land, we believe that at the present moment we earnestly need to achieve the following:

1. To organize practical workers and theorists into a group and to earnestly spread the scientific research and study of land economics and engage in penetrating propaganda work on the subject. This is to enable leading organs at various levels to obtain a clear understanding of the serious nature of the wasteful use of land at present and also of the urgency to put land under control. The various trades and professions should not begrudge assuming the responsibility of economizing on the use of land. Government departments at various levels and economic leadership organs should grasp the economic utilization of land and the banning of the wanton use of land resources as an urgent and strategic task in national construction.
2. To put under unified planning those construction projects related to industrial and agricultural production and national defense. Large scale capital construction and accessory building activities should be subject to the four unifications, namely, unified regulations, unified land requisition, unified construction work, and unified plans. As to construction in cities and towns, particularly in large cities and towns, an overall planning scheme should be formulated as soon as possible. A construction guideline should be determined. The scale of construction and the size of the population of the cities and towns should be rigidly controlled.

3. To take economizing on the use of land as an important principle governing the rebuilding of old cities and towns. Some of our comrades did not do accounting work concerning land but confined themselves to money accounts. In rebuilding old cities and towns they continually expanded the scale and scope of the projects, without setting any limit on the amount of cultivated land they occupied on the outskirts of the city. Conditions of this kind should be speedily remedied. The rebuilding of entire streets and blocks of buildings in old cities and towns should be carried out according to plan and in conformity with the available financial and material resources of the state. Related government departments should adopt the same attitude as if they were playing chess and spontaneously and closely coordinate and co-operate with each other concerning such matters as land requisitioning, tearing down old houses and evacuating residents to new housing sites, regulated planning, supply of materials, actual construction work, formulation and coordination of municipal construction plans, and so on. As seen from the many applicants for housing still on the waiting list, the housing problem is indeed an urgent one. At present, there is an urgent need to step up the building of residences and dormitories, in order to solve the difficulties of those urgently in need first. But we should do our utmost to demolish old buildings and put up new ones. We should tear down single storey houses and replace them with multistorey buildings and should prevent the arbitrary occupation and use of cultivated land. Upon completion of the new buildings and in occupancy allocation, consideration should be given to all concerned. On the one hand, regard should be given to new residents. On the other, the needs of former residents should be met as well. In this way, we would be gaining the initiative in the work of rebuilding old cities and towns. Meanwhile, units doing expansion and rebuilding work should first of all tap their own potentialities concerning land requirements. They should abide by the provisions of unified city planning.

4. To enact as early as possible a land statute and amplify the control system over land occupation. Economic legislation and working according to economic judicial procedure represent forceful means which highlevel organs can employ to readjust economic relationships. It provides a legal guarantee to the maintenance of the public ownership system of land under socialism and insures the proper control and proper use of land. Violations of the land statute should be subjected to criticism, educational processing, disciplinary action, economic sanction and even criminal prosecution depending on the seriousness of the case. Experiences over the past 30 years since the establishment of the republic have amply testified that such provisions are indispensable. At the same time, based on the principles governing the regulations of the land statute and taking account jointly of the present state of development of the national economy and of the reforms in the system of control over the national economy, the controlling organs should promulgate regulations governing control of land and provisions for their implementation. Only in this way will there be laws and regulations to fall back on and can enforcement of the law be stern and prosecution of violations be severe. This will stop and eradicate the phenomenon of the wanton and lavish use and destruction of land resources.

5. To initiate a tax on land utilization. While strengthening administrative control, economic tactics may simultaneously be employed to firmly implement the principle of "using whenever possible barren land, hilly land, land of inferior quality, vacant land or reclaimed land and using as little cultivated land as possible or none at all." From now on, construction units granted the use of land should be subjected to a land utilization tax. Those making use of barren land should be exempted. A higher tax rate should be levied on those using cultivated land while those using good farmland in the city's outskirts should pay a heavy tax. Communes and brigades using cultivated land for various construction purposes should not be exempted from the farm tax or from the unified purchase scheme of the state.

6. In planning civil and industrial construction projects special stress should be laid on economizing on the use of land. Whenever conditions permit, large cities and medium and small cities should promote the building of multi-storey buildings. Over a long period of time, the plans for industrial construction in our country have followed practices of the Soviet Union, deploying large tracts of land and indulging in extravagance. From now on, apart from stipulating that the ground area of a construction project should be as restricted as possible, certain light industrial plants should be housed in multistorey buildings, certain kinds of workshops should be grouped together in the same building, and certain warehouses, stores and annex projects should be located in multistorey buildings. In future, an important criterion for judging the performance of a construction planning unit will be whether or not it has effected economy in the use of land in its planning. We should learn from many advanced industrial countries which have paid close attention to environmental protection and safety while at the same time economizing on the use of land. In addition, we should help the vast masses of communes and brigades to gradually follow rational regulations, change their planning, promote the building of more multistorey buildings, and pursue planned construction work.

7. To strengthen centralized leadership, establish specialized organs, enforce unified management, and adopt a grade responsibility system. Government departments above the district level should set up land utilization control committees (or leadership groups) supervised by the leadership personnel and participated in by members of their respective planning, economic, construction and agricultural committees. These control committees should be responsible for carrying out propaganda work and the land policies and statutes of the state. They should formulate the necessary management rules and provisions for their implementation, examine and approve land regulation schemes and their implementation, examine and approve land requisition applications within their jurisdiction, and lend necessary support to economic judicial organs in prosecuting serious cases of lavish use of, and damage to, land resources. In agricultural sectors, land utilization control bureaus (departments) should be set up to take charge of concrete tasks. They should strictly prohibit any unit or individual not in charge of land control functions from exceeding their powers and examining and approving the requisition of land.

## NATIONAL ECONOMIC POLICY

### SICHUAN'S DEVELOPMENT VIEWED BY GOVERNMENT OFFICIAL

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[Article by Tian Jiyun (3944 4764 0061) of Sichuan Provincial Finance Bureau: "On Broadening the Sources of Income"]

[Text] Socialist finance is an important means for the state to raise and allocate funds. How should the localities, under the central government's unified leadership, give full play to the local strong points, broaden the avenues of production and increase their financial resources? Provided revenues and expenditures are balanced, how will local finance strongly support and promote production, construction and the development of various undertaking, and then gradually improve the people's material and cultural life? All these are important tasks which must be well handled. Now, let me present some superficial views particularly on the question of broadening our financial resources and increase state incomes on the basis of accelerating economic development.

#### I

Way back in 1934, Comrade Mao Zedong pointed out: "To increase our revenue by developing the economy is a basic principle of financial policy."<sup>1</sup> Later, he further pointed out: "Without a well-based economy, it is impossible to solve financial difficulties, and without a growing economy, it is impossible to attain financial sufficiency."<sup>2</sup> Practice has proved Comrade Mao Zedong's statements to be correct. According to the situation in Sichuan, the total industrial and agricultural output during the first five-year plan period increased progressively at an average rate of 12.9 percent each year, and financial revenues increased progressively at 9.5 percent. During the second five-year plan period, the total industrial and agricultural value decreased progressively at an average rate of 3.8 percent each year, and the government revenue decreased progressively by 6.5 percent. During the 3 years of readjustment, the total industrial and agricultural output value increased again progressively by 14.4 percent and the revenue increased progressively by 18 percent. In the latter part of the Great Cultural Revolution, the interference and sabotage by Lin Biao and the "gang of four" brought the

national economy to the brink of collapse and the plan for revenue was unfulfilled for 5 years running. The smashing of the "gang of four" brought a rapid recovery and development in production, and government revenue again increased by a wide margin for 3 successive years, averaging a progressive increase of 22.8 percent annually. The changes in agricultural production and development and in government revenues during the above mentioned periods shows that production determines distribution, and economy determines finance. Since economic development is the material foundation for the growth of government revenue, the only correct way to broaden the sources of income is through economic development and increased government revenue.

Practice has also shown that finance can play a positive role on economic development. The speed of economic development can be increased in many ways, such as the implementation of a correct tax policy, rational financial allocation and an overall balance, the correct handling of the relationships between the state, the collective and the individuals in distribution, and raising the economic effects of government finance. Shortly after the smashing of the "gang of four," Sichuan faced great difficulties both economically and financially. The provincial party committee repeatedly pointed out that in order to solve financial problems, we must begin with economic development. It further pointed out that if we wanted to enliven economy, we should rely on policies to arouse enthusiasm in various quarters. For several years, the financial departments have adopted a series of practical measures, based on the directives of the Party Central Committee and the Provincial Party Committee and in coordination with the unified policy of the central authorities. These measures were, for example, 3 years' exemption from tax for newly established commune- and production brigade-run enterprises and urban collective enterprises; 50 percent reduction of tax on the increased income of collective handicraft industry; reduced tax on liquor substitutes; fixed subsidies for losses incurred as a result of implementing government policies; sharing benefits from reduced losses; and direct links between the material benefits of the enterprises and their workers and staff members and the profits handed over to the state among the experimental enterprises with expanded decision-making power. These measures have achieved outstanding economic results and speeded up economic readjustment and the recovery and development of industrial and agricultural production.

The question of broadening the sources of income is essentially a question of financial management. Finance workers must have a correct financial mentality and be able to correctly handle the relationship between economy and finance, and consider financial problems by proceeding from the overall national economy. To be able to do all these, they should not be satisfied with being good "money keepers." Instead, they should be good economists and be good at applying the economic laws. Instead of merely "protecting the present possessions," they should strive to "create wealth"; and instead of urging people to get their work done, checking on their work, totalling up their accounts and then reporting to the higher authorities, they should give thoughts to economic development, bring into full play various

financial functions and speed up the national economic development. Economy is the source, and finance is the flow. Broadening the sources of income means promoting the development of the national economy, the growth of social wealth and the increase of national income. With a developed economy, social wealth and national income will increase, the sources of revenues will be broadened, and finance will be enlivened. If this way is used for broadening the sources of income, then financial revenues will grow by not only "addition" but also probably by "multiplication."

To start increasing the revenue by broadening the sources of income, we must observe the objective economic laws. Under conditions of socialism, we can give more scope to the superiority of the socialist system and enable the national economy to develop harmoniously at a sustained high speed, provided the economic laws are observed; otherwise the development will slow down, come to a halt, or even go backward. Since the founding of the People's Republic, the finance departments have done a great deal of work in promoting production with great success, which must be recognized. However, since they did not quite understand economic laws, they have also done many foolish things. For example, at the very mention of promoting production, they immediately "promoted any kind of production," by supplying to any "need" and without considering the need for the harmonious development of the national economy or for an overall balance of revenues and expenditures. Again, at the very mention of "vigorous action," all available financial and materials resources and manpower will be thrown into the project regardless of the economic result. As soon as the "five small" industries were stressed, an "independent and complete industrial system for supporting agriculture" was formed at every level regardless of the objective conditions. The results turned out to be exactly the reverse. In broadening the sources of income hereafter, we must maintain a balance of revenues and expenditures, limit our expenditures as permitted by the revenues, follow the plans for national economic development and note the relative urgency of various projects. We must support whatever needs support and restrict whatever should be restricted. We must take advantage of taxation, credit and pricing as economic levers in implementing the principle of material benefits in order to arouse the activism in various quarters in increasing their production and income. We must also promote production according to the socialist goal, conduct in-depth market investigations, analyze the competitive power of various products, carefully consider such factors as raw and semi-finished materials, power, equipment and technology, size up the situation carefully, watch the trend, and determine the directions before taking any action. At present, we must particularly and conscientiously implement the policy of readjustment, restructuring, consolidation and improvement, and actively promote the readjustment of the national economy.

The broadening of financial resources should be carried out in a "reasonable and ethical" way. We must not one-sidedly strive for "high speed" increase of financial revenue by disregarding the people's living conditions. Setting "high targets," "launching satellites" and, in some places, "selling trees by pointing at the mountain" and "selling fish by point at the sea" as well

as the "high procurement" during the "Great Leap Forward" outwardly showed "leap after leap" in government revenue, although it was only a false appearance. Finally, the revenues dropped. We must not one-sidedly stress the financial needs of the state and ignore the interests of the localities, enterprises and individual workers and staff members by taking away everything and leaving nothing for the localities and the enterprises. In this way, financial revenues may seem to increase very rapidly. However the localities and enterprises, having no financial resources of their own had to rely on the state for everything. As a result, the state cannot be well-off financially. To arouse enthusiasm in increasing income and curtailing expenses, it is entirely necessary to give the localities and enterprises certain economic power and benefits. In this way, the ratio of funds for unified state allocation in the national income now may be a little less, but the result would be even better for the state because the absolute amount of state revenues cannot be reduced for the reason that with their own financial resources, the localities and enterprises can strengthen the reserve forces of state revenue and help arouse enthusiasm in various quarters to enliven the economy.

## II

Enterprise profits are the main source of state revenue. To open up financial resources and to increase income, we must first arouse the enthusiasm of enterprises to increase both production and income. Under the socialist system, the social products created by the workers of enterprises, after compensating the consumption of materials in the course of production, become national incomes which can be used for distribution. Financial revenue is that portion of national income collected by the state from the first distribution to be used for redistribution. From the national income created by the enterprises, the share of workers and staff members, the share of the state and the share to be retained by the enterprises have formed the relations of distribution. Constant and conscious adjustments of the relations of distribution according to the level of national economic development can play an important role in arousing the enthusiasm of the enterprises and the workers in promoting the development of productive forces.

For a long time, the state has handled all revenues and expenditures of enterprises owned by the whole people in a unified way, whereby, the entire amount of profits has to be handed over to the state which, in turn, pays all the expenses and makes up all the losses. The main defect of this system is that it does not embody the principle of socialist material benefits, and deprives the enterprises of their innate economic motive force. Instead of helping in fully arousing the enthusiasm of the enterprises and their workers and staff members in increasing production, practicing economy and creating more profits, this adversely affects the development of social productive forces and the increase of national revenue. In a socialist society, correct application of the principle of material benefits is the basic starting point in formulating financial policies and rationally adjusting the relations of distribution between the state and the enterprises. In handling the

relations of distribution between the state and the enterprises according to the principle of material benefits, the enterprises should have the right to participate in the distribution of the national income created by themselves and their workers and staff members, and thus obtain the due portion for their self-development. Furthermore, the amount of material benefits for the enterprises should correspond to the result of their production and to their contribution to the state. This will encourage the enterprises in striving to achieve maximum economic results with minimum consumption of materials.

Socialist enterprises are relatively independently commodity producers based on the system of public ownership of the means of production. Expansion of their decision-making power as guided by state plans will guarantee their economic benefits commensurate with their independent economic position and enable them to become economic cells full of vitality, to dynamically develop production and to continue to create more social wealth. The expansion of enterprises' financial power is the core of the expansion of the decision-making power for enterprises. The possession of a certain amount of fairly stable standby financial power through a rational readjustment of the relations of distribution between the state and the enterprises will enable the enterprises to use part of their business revenue to pay their own expenses and to carry out expanded reproduction, and encourage them to tap their own potentials, transform their equipment and speed up the development of their production all through their own efforts.

In the experiment of expansion of decision-making power for the enterprises, Sichuan Province has directly linked the drawing of enterprise funds and awarding bonus for the workers and staff members with the economic results of the enterprises' business management. At the same time, the portion of depreciation fund left with the enterprises on their fixed assets was appropriately increased, and the economic power, economic responsibility, economic results and economic benefits were all taken into consideration, thus ending the long-standing practice of all revenues and expenditures being handled by the state in a unified way and "eating out of the same pot." Despite certain imperfection in the specific regulations, this is a correct orientation, and the results are obvious. Many experimental enterprises are now actively striving for a balance of supply, production and marketing, taking the initiative of "looking for rice to cook their own meals," in order to increase production, boost sales and gain greater profits. Some enterprises are conscientiously practicing economic accounting, strengthening quality control and striving to lower their material consumption and to raise their profit level. According to preliminary statistics from 84 local experimental industrial enterprises, the rate of increase in the total output value, actual profits, and profits handed to the state in 1979 all surpassed the average rate of all other local industries in the province, as shown in the following table.

	Increased Rates of Total Out- put Value (%)	Increased Rate of Profits (%)	Increased Rates of Profits Handed Over (%)
84 Experimental Enterprises	14.69	33.02	18.97
Local Industries in Province	11.68	26.13	14.16
Difference between the above	3.01	6.89	4.81

The increase rate of commodity sales, total profits and profits handed over to the state among the experimental commercial enterprises are also higher than those of nonexperimental enterprises throughout the province (food companies not included) as shown in the following table:

	Increased Rates of Commodity Sales (%)	Increased Rates of Profits (%)	Increased Rates of Profits Handed to State (%)
Experimental Enterprises	22.97	41.22	34.29
Provincial Average	16.58	34.53	29.58
Difference between the above	6.39	6.69	4.71

The increased profits of experimental enterprises in 1979, viewed in the light of distribution between the state and the enterprises shows that the state gained more, and the enterprises retained more than before, but the state's gains were larger than the portions retained by the enterprises. The increased profits of the 84 local industrial experimental enterprises were 156.91 million yuan, of which the state gained 96.91 million yuan, or 61.76 percent, while the enterprises retained 60 million yuan or 38.24 percent. The increased profits of commercial experimental enterprises were 7.25 million yuan, of which the state gained 5.19 million yuan, or 71.59 percent, and the enterprise retained 2.06 million yuan, or 28.41 percent. With their greatly increased funds, the enterprises were able to do more not only in tapping potentials, transforming their equipment and expanding their production, but also in improving the collective welfare and increasing the incomes of the workers and staff members.

The nonexperimental enterprises should also strive to follow the economic laws and the relations of distribution between them and the state should also be rationally adjusted. For the enterprises running at a profit, the method of profit-sharing should be gradually popularized, and the ratio of sharing should vary according to concrete conditions in different trades. This will encourage the enterprises to increase their output as well as their income, and thus increase their material benefits. For those running at a loss, a contract system was introduced permitting losses up to a fixed or planned amount, and providing the sharing of benefits from reduced losses. However,

problems caused by losses above the fixed amount have to be solved by the localities or the enterprises themselves. All these methods have been quite effective. In the past several years, business losses of food companies throughout the province sharply increased. In 1977, the amount of loss was 93 million yuan. In 1978, the system of responsibility for excessive losses and of sharing benefits from reduced losses was adopted and the enthusiasm of food companies at various levels to improve their management soared. In the same year, the sale of pigs increased by 40 percent over the preceding year, and the loss was reduced by 29 percent. The average loss on each pig was reduced from 9.06 yuan to 4.57 yuan. The same system was continued in 1979, and further aroused the enterprises' enthusiasm, and before the prices of meat were raised, they had already turned their loss into a profit of 18.79 million yuan. With the money earned from the reduced losses under the contract in the past 2 years, the localities have built 63 cold storage chambers with a total storage capacity of 35,700 tons, or more than 60 percent of the original capacity of the whole province. By the end of 1979, 21 of them were completed and in operation, and have played an important role in reducing feeding and transportation expenses and damage from the loss of weight and deaths of pigs, and in developing pig-rearing. The expenditure level of food companies in the province dropped from 11.87 percent in 1977 to 7.23 percent in 1979, and the expenses incurred in the transaction on each pig dropped from 8.02 yuan in 1977 to 5.60 yuan.

Practice has shown that in broadening financial resources and increasing income, pure reliance on administrative means--such as holding rallies, issuing calls and setting targets--is impractical, and that assistance in the solution of concrete problems of production, supply and marketing with stop-gap measures can be of only limited value. In adopting either administrative or economic measures, we must observe economic laws. In carrying policies, we must rationally readjust the relations of distribution between the state and the enterprises, and, with the guarantee of a major share for the state as a prerequisite, we should suitably expand the enterprises' financial power, before we can fully arouse their activism, further develop the productive forces, and broaden the financial resources and increase government revenue on such a basis. Some policies and measures may reduce the income in the short run, if we will take only a partial view of them. However, in the long run and for the overall situation, they should help in economic development and the increase of financial resources which will ultimately bring about an increase of government revenues. Similarly, in readjusting the relations of distribution between the state and the enterprises, the state seems to be handing out a portion of its revenues to the enterprises. However, since this will arouse the enthusiasm of the enterprises in increasing production and income and in promoting the growth of social wealth and national income, "the ship will rise in high tide," and the growth of social wealth and national income will not only make up what the state has handed out, but also increase the state's financial accumulation on the original basis. As the old saying goes, "we have to give first and take later." One step backward is taken only for taking two steps forward.

Gradual readjustment of the relations of distribution between the state, the enterprises and the workers and staff members; smashing the old system of state handling of all revenues and expenditures in a unified way; and restoring the position of socialist enterprises as relatively independent commodity producers--this is the correct orientation which cannot be shaken. However, before the all-round restructuring of the economic management system, and in view of the financial difficulties of the state, the speed of restructuring must be considered in the light of overall financial balance and a comprehensive arrangement, and be set within the limits permitted by the state's financial resources. If we disregard the overall financial balance and one-sidedly expand the enterprises' financial power, the required investments on key construction projects cannot be guaranteed and, furthermore, there may be a new imbalance in our national economy. At the same time, this reform should also be based on the consideration of the orientation of the major change of the economic system in the future, so that, instead of obstructing, it will help promote the fundamental economic restructuring. While stressing the need for material benefits and the use of profit as an important lever in economic activities and as a yardstick on business results, we should at the same time strengthen ideological and political work so as to help the workers form their overall viewpoint and policy concept and foster their spirit of dedication to the four modernizations. In this way, we will help them organize and develop production in the direction of the socialist goal and according to party principles and policies. With their expanded decision-making power as a driving force, the enterprises should direct their efforts in the practice of overall economic accounting, in the improvement of business management, and in broadening the sources of income and cutting down expenditures, instead of one-sidedly stressing the need for the benefits of the enterprises and their workers and staff members and forgetting the need for the state to get more from their increased production and income. While broadening their financial resources, the enterprises should also "make money by ethical means." The portion of retained profits should be "obtained reasonably and used suitably." The "divide all and use all" practice of diverting these funds to the extension of their capital construction front and to the indiscriminate distribution of bonus must be particularly guarded against. After eliminating the system of unified handling of revenues by the state, the method of ending the system of unified handling of expenditures by the state should be duly studied. Every right must be accompanied by responsibility, and the enterprises must not take away a portion with one hand, and stretch out the other hand for something else from the state. Any expense that should be paid out of the retained funds should not be charged to the state or passed to other enterprises. Nor should it add to the burden of the broad masses.

### III

Economic results must be stressed in broadening financial resources. In the past, when people had only the vaguest idea of economic results, there were many instances of consumption being higher than production, investments being larger than outputs and business proceeds not being enough to cover losses.

These lessons must be remembered. In broadening the financial resources, we must conscientiously implement the policy of readjustment, restructuring, consolidation and improvement, begin with a study of the condition of productive forces, and then choose the most effective method according to local special features.

We must begin with the tapping of potentials, and the renovation and transformation of their equipment among the existing enterprises. We must not think of building new plants at the very mention of broadening financial resources and increasing income. According to an analysis of data over the past years, the increased production capacity as a result of tapping potentials, and renovation and transformation among the existing enterprises means a saving of two-thirds of the funds and more than one-half of the materials required for a newly built project. Furthermore, the commissioning is much earlier, meaning that half of the effort can yield twice the result. At present, Sichuan Province has a fairly solid foundation of industry, and the amount of its fixed assets ranks second among all the provinces, municipalities and autonomous regions of the country. However, because of its low equipment utilization rate, its production capacity cannot be given full play, and its actual total industrial output value ranks fifth among all the provinces, municipalities and autonomous regions. The profit level of the enterprises is even way below the national average. According to statistics on the utilization of the 10 principal types of equipment in five industrial departments, namely, metallurgy, electric power, machinery, construction materials and textile, the utilization of six of them are below national level. The lack of auxiliary projects and coordination among different trades inside the trades and inside the enterprises is quite obvious. In metallurgy, the rolling capacity is higher than that of steel smelting, that of steel smelting higher than that of iron smelting, and that of iron smelting higher than the "inversed pyramid" of the mines. In the textile industry, the two ends (weaving and dyeing capacities) are small and the middle (knitting capacity) is large, and this has an adverse effect on the development of production capacity and the rise of labor productivity. In 1978, the labor productivity of workers of all industrial enterprises in the province was lower than the national average by 32.5 percent, and the profits derived from every 100 yuan's worth of total output value is lower than the national average by 11 percent. To develop the potentials of the existing enterprises, the allocation of funds for production and construction should be in this order: "production first, capital construction later" and "tapping potentials first, new construction later." Priority for tapping potentials and transformation should be insured. In 1979, Chongqing Municipality first helped light industry, textile industry and the chemical industry solve the financial problems in developing production with remarkable success. Through a loan of 18 million yuan, the problem of funds for more than 120 projects was solved. After the completion and commissioning of these projects, it is estimated that the output value will be increased by more than 140 million yuan, and the taxable profits will be increased by more than 30 million yuan. In 1979, the province rebuilt five sugar refineries, each capable of pressing 500 tons of sugarcanes daily, by spending a total of 17 million yuan in the form of both

government administration and from 1958 to 1960 a refinery, 60000 tons capacity was doubled; in other words, one refinery became two. During the pressing season of the same year, the output of sugar was increased by 10,000 tons, and tax increased by more than 4 million yuan. If five refineries of the same capacity were newly built, it would have costed not only an investment of 40 million yuan but also 3 years time. In order that the funds used on tapping potentials and transformation will produce the desired effects, we should solve the problem of the large number of technical projects, the over-extended front, and the delay of commissioning, and particularly guard against any large-scale diversion of funds to capital construction. While the scope of capital construction is being drastically reduced during the period of economic readjustment, we can still maintain the fairly rapid growth of industrial productions and government revenue as long as the work of tapping potentials, renovation and transformation is carefully attended to and the potentials of some 40,000 industrial enterprises in the province are fully tapped. The defense industry, in particular, has a fairly solid material foundation as well as a strong technical force. If the surplus production capacity is fully utilized under the principle of combination of peace and war industries, it will be possible to greatly increase the production of industrial goods now in short supply, and particularly the durable consumer goods, for the domestic market and for export in order to increase state revenue.

We should pay particular attention to the key projects when we bring out our strong points into play. Sichuan has a large area and a large population with abundant natural wealth and a temperate climate. Always known as "the land of plenty," it has plains, small and large hills, plateaus and high mountains, all affording favorable conditions for a diversified economy. For many years, because of the one-sided stress on grain production, the cash crops were overlooked. While agriculture was one-sidedly stressed, forestry, animal husbandry, sideline occupation and fishery were ignored. Our attention was then only concentrated on the 100 million mu of farmland, but more than 700 million mu of mountainous and forestry areas, grassland, and water surface hardly received any notice. The natural resources were not fully utilized and labor potentials were not given full play, causing an adverse effect on the all-round development of agriculture and the rapid rise of agricultural labor productivity. The agricultural output (including agricultural, forestry, animal husbandry, sideline occupation and fishery outputs calculated at an invariable price) created by one agricultural worker was 324 yuan in 1957 and 355 yuan in 1978, a rise of only 3.04 percent. Calculated in terms of the net output value, the amount of 324 yuan would be reduced to 216, a decrease of 9.62 percent. Although agricultural production in the province has recovered and developed rapidly after the smashing of the "gang of four," the present levels of agricultural production and the commune members' income are still low. Particularly, the development of the cash crops is slow, and the production of cotton, peanuts, sesame and other main crops is still not back to their previous highest level. The output value of forestry, animal husbandry, sideline occupation and forestry, among the total agricultural output value is only 26.5 percent, and far below the 32.8 percent level of 1957. This not only affects the growth of the rural collective economy, the

income of the commune members and the increase of grain output but also restricts the processing industry which is depended on agricultural sideline production. The main goal of financial allocations in supporting agriculture, hereafter, should be the rapid and all-round development of agriculture in striving for agricultural modernization. Full play should be given to the local strong points, and the funds should be used selectively on the most promising projects. While continuing to support grain output, we should vigorously develop the diversified economy in order to supply more raw materials for the light and textile industries. For example, the annual output of cocoons in Sichuan has already reached 1.4 million dan, ranking first among all provinces, municipalities and autonomous regions. Since the communes and production brigades or teams in Sichuan plant mulberry trees in nooks and corners, along river banks and on waste slopes without intruding into the farmland, there should be no contradiction between grain and mulberry trees in the competition for land. Therefore, it is possible for us to plant mulberry trees and breed silkworms on a large-scale so as to develop our silk textile industry. The total number of pigs in our province is about 40 million, ranking first in the country. There are also 160 million mu of grassland and 30 million mu of grassy slopes suitable for raising cows, sheep and other grazing animals. These are the favorable conditions for developing the leather and straw industries. Sichuan's wine and medicinal herbs enjoy high reputation in the domestic and world markets, and have a promising future. Hydropower resources are also plentiful in the province, but the utilization rate is less than 1 percent. The water surface used for breeding aquatic products is only 38 percent of the total water surface; therefore, there are great potentials for hydro-electric power and fishery. Furthermore, there are 60 million mu of waste slopes which can be used for developing economic forestry. All these are local advantages and hereafter we should pay attention to the key items. Practice in some localities has already proved that developing diversified economy through full utilization of local advantages will yield not only quick but also good economic results.

The focus of our work should be the promotion of harmonious developments of various departments of the national economy. For a long time, the backwardness of our agriculture and light industry has been very obvious. There is also an imbalance of national economy because of an irrational structure. This should be gradually improved through readjustment. Only thus can we help in the effective utilization of manpower and material, financial and natural resources in the rational distribution of productive forces, in a coordinated development of agriculture, light industry and heavy industry, and in speeding up economic development. In agriculture, the allocation of funds on forestry, animal husbandry, sideline occupation, fishery and commune-production brigades-run enterprises should be proportionate so that all departments within the agricultural sector can be mutually supplementary in development, and the labor potentials can be given full play. Compared with heavy industry, light and textile industries require less investment, but yields more accumulation funds and quicker results. They provide a shortcut to the broadening of financial resources. According to an analysis on the data of relevant departments in our province, light and textile

industries require 2 years and 4 months to recover the investments in the form of fixed assets, while heavy industry requires 8 years and 4 months. However, because of the one-sided stress on "taking steel as the key link" in the past, light and textile industries in Sichuan have been rather backward. The ratio of light and textile industry in the industrial fixed assets in the province was 30.3 percent in 1957, 16.1 percent in 1965, and 12.4 percent in 1978. The average per capita output value in the light and textile industries of the province is lower than the national average by more than 30 percent. It is obvious that in broadening the financial resources, the focus of work should be directed to speeding up the development of light and textile industries. In allocating funds for capital construction, in tapping potentials and in renovation and transformation, as well as in extending loans for financing minor technical projects, priority should be given to the needs of light and textile industry. The light and textile industrial enterprises should have certain financial power so that they can promptly readjust the orientation and makeup of their products and add more designs and varieties according to the requirements of the state and the people. When the enterprises' technical projects, financed by loans in various forms, are commissioned, they should be allowed to use the increased profits, thus obtained, to redeem the loans before paying tax. Also some consideration should be given to the tax on new products.

We should strive for increased production through the practice of economy and the strengthening of management. Increasing production and practicing economy are equally important. We should increase our income as well as curtail our expenses. These are successful experiences as proved in many years' practice, but they are usually overlooked. At present, high consumption, huge waste and poor quality are quite common in production. Particularly because of the present shortage of energy resources and raw material supply, striving for increased production through the practice of economy should be of special significance. The potentials of conservation are also the potentials of increasing production. The principle of supplying fuel, power, and raw materials to the most deserving units should be firmly upheld, so that those enterprises with low consumption can operate at full capacity to increase production. As to those enterprises whose consumption is too high and loss is serious, we should have the determination to suspend their operation pending consolidation. In this way, we will be able to use the same amount of raw materials and power to produce more goods, reduce state losses and increase state revenue. From the experiences of many enterprises, we can see that as long as the management is improved, it is possible to raise labor productivity and produce more and better goods even without increased investment, equipment or manpower. In coordination with the readjustment and consolidation of enterprises, we should adopt effective measures to resolutely overcome the practice of consumption without fixed limit, examination with any criterion, management without a system, frugality without being rewarded and wastefulness without being punished. We should set up a system of job responsibility and rational standards of consumption, enforce economic accounting and the analysis of economic activities, and strengthen the inspection system. Those who practice economy should be rewarded and those who are wasteful should bear the economic responsibility.

At the same time, we should practice all-round quality control, strive to keep our technology up-to-date and to bring up a new generation of goods, strengthen the competitive power of products and the vitality of the enterprises, and insure a sustained increase of production and income.

The problem of broadening the sources of income is a sweeping and complex one, but it must be solved. Our finance and economic workers must uphold the Marxist theories of knowledge and of practice as the sole criterion for testing truth; be good at summing up past experiences, both positive and negative; continue to study the features of modern socialist mass production and strive to master the law of its development in order that our ideology and work can closely keep pace with and suit the developing situation. In this way, we will be able to make due contributions to the acceleration of the four modernizations.

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9411

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## NATIONAL ECONOMIC POLICY

### ROLE OF LOCAL PLANNING IN NATIONAL ECONOMY EXPLAINED

Beijing JINGJI YANJIU (ECONOMIC RESEARCH) in Chinese No 7, 20 Jul 80  
pp 33-36

[Article by Zuo Mu (0146 3668): "On the Role of Local Planning and the Relations Between Plans and Markets"]

[Text] Guided by the spirit of the Third Plenum of the Party, all localities have for more than one year summed up their experiences of cooperation in outside-the-plan projects and in recognizing the regulative role of the market. Economic work is now more flexible than it was before. As shown by actual conditions, a greater regulative role of the market will be accompanied by a greater role of local planning (here and hereinafter meaning the planning of counties and municipalities affiliated to provinces). Thus if we can clearly recognize the significance of local planning, consciously bring the supplementary role of local planning into play, and well handle the relationship between state planning (which includes provincial planning according to the present system) and local planning, then economic work will become even more flexible and the market will play its regulative role even more effectively. Now, let me explain the theory behind the question.

#### I. The Role of Local Planning Has Become More Prominent Along with the Strengthening of the Market's Regulative Role

Since the second half of 1979, planned products have entered the market in increasing numbers, and many outside-the-plan products are being supported by planned raw materials and fuel. There is now a criss-crossing of planned and outside-the-plan forms of production which are closely interrelated. The so-called "outside-the-plan" production embodies the roles of both the market and the local planning. Under this circumstance, it is very difficult to classify economic activities as simply "inside the plan" or "outside the plan" in the customary way. For example:

(1) Production inside the plan but circulation outside the plan. In early 1980, a commodity fair was held in Nanjing with the representatives of 29 provinces, municipalities and autonomous regions attending. The total

volume of free transactions reached 120 million yuans in value. Of the commodities transacted, 75 percent were trucks, steel products and various types of means of production, and are mostly planned products. In the fair, however, their circulation was outside the plan. More than 40 similar fairs have been held in various parts of Jiangsu since June 1979, and the volumes of free transactions on planned products in these fairs were fairly large. On the other hand, the supply and marketing of the outside-the-plan products of many commune- and production brigade-run enterprises were wholly, or partly handled as planned products. For example, some 1,500 pairs of leather shoes were produced annually by the commune-run industry in the four prefectures of Northern Jiangsu. Part of the raw materials were planned, but all the processing was outside the plan. The marketing of these shoes were almost entirely undertaken by state commerce and, therefore, included in the planned circulation of commodities.

(2) Half inside the plan and half outside the plan. Trucks are produced according to state planning. However, because there was not enough tung oil, the plants had to exchange some of their above-quota trucks for above quota tung oil in some tung oil producing area. The tung oil thus obtained was outside the plan, but the tung oil they bought was used on the planned production of trucks. Again, soap was used to exchange for resin required for soap-making; and lathes were used to exchange for pig iron required for the reproduction of lathes; and so forth. All these exchanges are outside the plan but are necessary for the completion of the planned tasks.

(3) Inside the plan in one aspect and outside the plan in another. In Wuxi and other areas, many enterprises have utilized their facilities for processing materials from customers after fulfilling the state plan. This type of processing is outside the plan for the enterprises, but inside the plan for the customers. The garment department of Qidong County established direct contacts with the large department stores in Beijing, Shanghai and other large cities, and have processed their materials for about 600,000 garments. This business is outside the plan for Qidong County, but inside the plan for Beijing, Shanghai and the other cities. Again, some rural communes and production brigades in Jiangsu have processed some spare parts and accessories of oil production equipment for the Daqing Oilfield. For Daqing, this is inside the plan, but for the local communes and production brigades, it is outside the plan.

(4) First outside the plan and later inside the plan. Such conditions are more frequent in the machinery trade. In recent years, because of the reduced scale of capital construction, state assignments for the machinery departments have also been reduced, and the production capacity of these departments was more than what they needed for the fulfillment of state plans. Some enterprises, therefore, undertook the processing of customers' materials while others produced and sold their own goods. After finding their way into the market, many of these goods were included in the state plan. In other words, the state supplied the raw and the semi-finished materials and sold the products for them. This is the way with Jiangsu this year, and there

are, among others, 60,000 sets of electric appliances for daily use produced, mainly including electric fans, refrigerators and laundry machines.

The several conditions mentioned above will undergo new developments when the market becomes more brisk.

Now, let us conduct a concrete analysis on the above facts. Both the first and the second conditions--namely, production inside the plan and circulation outside the plan and half inside the plan and half outside the plan--are typical examples of the combination of planned regulation and market regulation. These methods have played useful roles in enlivening the economy. Although the third and the fourth conditions--namely, inside the plan in one aspect and outside the plan in another, and first outside the plan and later inside the plan--embody the role of the market, there is in these conditions a certain kind of lever playing the regulative role. This lever has so far neither been understood nor recognized by us. It is local planning. Although the abovementioned economic activities are not included in the state plans, they are by no means unplanned. When some municipalities, affiliated to the provinces, are engaged in the processing of customer's materials, coordination in the supply of fuel, power and part of the raw and semi-finished materials, the allocation of manpower and equipment for production, the setting of indexes for output value and profits, and so forth, are all included in a local supplementary plan in order that an overall balance can be worked out by the local authorities. Therefore, in addition to the market, the state plan, the local supplementary plans and other factors also play their roles. Recently, along with the development of the regulative role of the market, the elements of market and local planning have played an ever-increasing role in breaking the exclusive control of state plans. From the market activities cited above, we can see the actual existence of two or three types of activism: first, state activism (as expressed in the plans of the state, the provinces and the departments concerned); second, local activism (as expressed in the local supplementary plans and the business activities of the cooperating staff offices, the material services companies, the production and marketing management departments, the retailing departments and similar organizations); and third, the enterprises' activism (as expressed in the activities of the enterprises in looking for materials to "feed" their machinery, in producing and selling their own goods, in organizing themselves for processing customers' materials and so forth). If combination is required, it means the combination of these three types of activism instead of the combination of the plans and the markets. Therefore, while trying to do our economic work more effectively and flexibly, and to handle the relationship between plans and markets more efficiently, we should also discover the problems within the system of planned management and to properly handle the relationship between state planning and local planning.

## II. Problems Within the System of Planned Management Itself Must be Noted

Up to now, planned regulation and market regulation are regarded as two different forms of economic activities, while local planning is arbitrarily included in market planning. This is unscientific. To clarify this question, we must first make some comparisons on the question of relationship between plans and markets.

At its present stage, our socialist national economy is basically in the form of commodity economy. Commodity production of any type, as long as it is related to modern mass production, objectively requires planning to a certain extent. The system of socialist public ownership has met this requirement. Ours is both commodity economy and planned economy. Since it is commodity economy, there is the market. The so-called market regulation in fact refers to a type of role played by the market on the entire commodity production instead of only a part of it. Similarly, planned regulation also refers to a type of role played by the planning on the entire commodity economy instead of only a part of it. What is the purpose of economic plan? The main purposes of the plans are the production and circulation of commodities. For a specific economic department, plans and markets play the principal and the subordinate roles. Both are related to the whole sphere of economic activities instead of playing separate roles in entirely unrelated segments. In the past, we had the mistaken idea that the means of production exchanged among state-run enterprises were not commodities, because such exchanges could only be considered as planned transfers or planned distributions, and the use of the market mechanism for free circulation was not permitted. Moreover, the consumers could not see the samples before making their choice or bargain over the price on the basis of the quality. As a result, many purchased items were mismatched. This was the trouble caused by the separation between planned economy and the market. After paying a lot of "school fees," many comrades have realized that plans are only the outcome of people's subjective will, and that whether or not a plan conforms to reality should be tested in the activities of commodity exchange in the market. In this sense, we may say that markets are the foundation of plans and that plans provide guidance for the market. If our economy is divided into two major portions regulated by plans and markets respectively, so that, as it is claimed, the portion under market regulation should amount to 10 percent, 20 percent or 30 percent, it will be a reflection of the long standing separation between plans and markets. This is an arbitrary view and will lead to difficulties for the statistics department. Today, such a view must be corrected.

Some comrades actually regard market regulation as an economic signboard, probably because it shows the initiative and activism of localities and enterprises. However, local initiative and activities are concentrated on and shown by local planning. In the past, the scope of control by our state planning was actually too broad. Too many varieties of products were controlled by the central government, the central departments and the provinces; the targets were too meticulous; and the control was too rigid. Since products ranging from equipment weighing tens of tons to screws of

2.5 millimeter were controlled by those authorities, no room was left for the localities to develop their activism and the development of productive forces was restricted. It was precisely this type of highly centralized economic planning system that ruined our economic work. To end this situation, the localities are now looking for ways and means to break down the restrictions imposed by state planning. They are now organizing their raw and semi-finished materials, undertaking their own processing and even selling their own products in the open market. Since these products are not included in state plans and local planning is not recognized as planning, local industry has to develop through the medium of markets. In the current year, locally planned industrial production in Wuxi Municipality has amounted to 31 percent of the total industrial production, and 2.5 percent of this portion was directly planned by the municipal planning committee. In Wuxi County, more than 70 percent of the total annual industrial production was locally planned and 19 percent of this portion was directly planned by the county planning committee. Unfortunately, up to now, local planning is still unrecognized and even the localities themselves do not think it is any type of planning, but rather a part of market regulation. There is among them some trace of lackey mentality, because lackeys are so accustomed to standing that they would refuse to sit down even though they are offered chairs. Since local planning is not recognized as planning, and neither its coordination with state plan nor its role in attaining a local overall balance has received due attention, the localities are now faced with many difficulties. At the same time, the demand on the localities has also been relaxed and as a result, the contracts worked out by some localities conflict with state plans, and such conflicts led to duplications and waste in production and capital construction which could have otherwise been avoided or reduced.

### III. Views on Improving the System of Planned Control

Based on the above analysis, I feel that some action is necessary on the planning system itself so that local planning will be recognized as a form of planning. This is particularly necessary when collectively owned enterprises and other small enterprises are daily increasing. Based on their own financial resources and the market demands, the local planning organs should work out a comprehensive arrangement for the use of funds, labor power, raw materials and energy resources in setting part of their own production tasks, and to actively provide planned guidance for an overall balance for the local economic activities. The present practice of treating local planning as a matter of relaying instructions among different levels is incorrect. This situation must be terminated.

The present highly centralized system of planning should be changed to a system of controlled planning at various levels. If our planned economy is likened to a melon, then it should be divided into the following portions: First, the state (including various central departments) plan; second, the provincial, municipal and autonomous regional (including the affiliated departments) plan; and third, the supplementary plans of the municipalities

(affiliated to provinces and autonomous regions) and counties. In addition, the enterprises, after completing the plans of the state and the higher authorities, should be encouraged to set their own outside-the-plan production and circulation tasks according to market demands.

The state plan is like the lead rope. The state should have long-range plans in defining the orientation and scope of development of the entire national economy and in determining various basic ratios. At the same time, it should have annual plans to bring about an overall balance of the national economy. Planned targets should not be based on products in full or excessive supply. The view that a positive balance must be based on the long line is erroneous. Rational planning should maintain a balance of the basic ratios. Should there be any shortage of raw and semi-finished materials of secondary importance, the "lubricating role" of the market can be used as a means of adjusting the surplus and the deficit, and the supplementary role of local planning can also be used to fill any gaps. In another respect, it is also necessary for the plan to leave certain leeway to help the localities work out an overall balance. For example, the printing and dyeing trade of Changzhou Municipality undertook the processing of customers' materials, which came under the category of the "regulative role of the market" although, in fact, it was arranged in "local planning." However, this year, it happened to be short of several hundred tons of soap, and urgently needed help through arrangements included in the state plan. Will the plan consider this request? Certainly yes, and in fact, it is considering. In such and similar problems involving material and energy supplies which are not easy for the localities to solve, state and provincial plans should provide every possible assistance. After all, state plan and the plans at various levels should be mutually supplementary and well coordinated. This is necessary for giving full play to the leading role of the state plan.

Local planning should be subordinated to state planning and should guarantee the fulfillment of state plans. Generally speaking, however, the scope of planning at the lower levels is broader than that of state planning which is of a mandatory nature. Besides, planning at the lower levels can be more meticulous and flexible. Besides striving for an overall balance, local planning should also try to bring about a harmonious all-round relationship. At present, in some municipalities affiliated to provinces, such matters as financial outlay and medium- or short-term loans are controlled by the finance departments; small loans are handled by banks; and industrial production is arranged by the economic committees and the bureaus in charge. In short, all activities are centrally controlled through different chains of command with little left to help the local authorities work out an overall balance in local planning. Furthermore, it is difficult to guarantee a good coordination between local and state planning. There should be a closer coordination between local planning and the market in order that the market mechanism can be better utilized to give broader scope to the local strong points and to adjust the surplus and deficits through commodity circulation. Then through cooperation in the production of complete sets of equipment, the local "fist" products will appear and find their way to the

market. If the overall balance is worked out in isolation from the market, it will naturally lead to the forming of a self-contained economic system. This possibility must be noted in working out local plans.

Enterprises are different from local authorities. From the social point of view, enterprises are independent commodity producers. In social contacts, they are only buyers or sellers, and in either capacity, their economic activities outside the plans of different levels are basically through the market. But it cannot be said that, just because of this, these independent business activities of the enterprises are only part of the market regulation, because, aside from the market's regulative role, the state and the localities can also provide direct or indirect planned guidance for enterprises through the allocation of energy resources, labor index taxation, credit and other economic levers. Any enterprises failing to note this point may act blindly in its independent business operation.

What has been mentioned above does not envisage any drastic change in the system of planning. It is rather a proposal for minor adjustments based on realities. Its purpose is to improve the planning system along with the strengthening of the regulative role of the market, and then through this improvement and the strengthening of local planning, to further enliven the market. What is discussed here is about industrial planning, but its basic spirit is applicable to agriculture as well as other fields. In collaboration with the above vision, we should make higher and more comprehensive demands on economic work mainly on the following points:

1. Implementation of the principle of combining plans with markets. Production and circulation included in the plans should be regulated and supplemented by the application of market mechanism, while market activities should rely on planned guidance in order to reduce the likelihood of acting blindly. The half inside-the-plan and half outside-the-plan and similar activities indicate a good coordination of plans and markets, and should be encouraged.
2. Implement the principle of combining state planning with local planning. The present ratio of local supplementary planning should be raised. This raise should indicate that the local activism and initiative are developing well.
3. The combination of planned control and the enterprises' independent business operation. Hereafter, the independent business activities of enterprises that are outside the plans of the state and the higher authorities should be further increased, since this will indicate that the activism and initiative of the enterprises are developing well.

Finally, I feel that statistical work should be correspondingly revised so that there will be independent statistics for the products and output value of productions carried out under local planning. These statistics will show the results of decentralized authority in economic work as well as the

flexible nature of this work. There should also be independent statistics for the products and output value of enterprises in their independent business operation that is outside the plans of the state and the higher authorities. These statistics will show how the enterprises have exercised their independence and how flexible is economic work. Statistics for half inside-the-plan and half outside-the-plan production, the production of state planned products with raw and semi-finished materials coming from the locality in the form of cooperation, and the production of local products with the raw and semi-finished materials originally intended for state-planned products, should be worked out separately, to show the regulative role of the market in its original sense. If all the economic activities not included in state plans are simply lumped together as "market regulation," what a mess will it be!

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9411  
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## NATIONAL ECONOMIC POLICY

### ADVANTAGES OF JOINT AGRICULTURAL, INDUSTRIAL, COMMERCIAL ENTERPRISES

Beijing JINGJI YANJIU (ECONOMIC RESEARCH) in Chinese No 7, 20 Jul 80  
pp 42-47

[Article by Wang Songpei (1369 2646 7198): "On China's Joint Agricultural, Industrial and Commercial Enterprises"]

[Text] Since the 1950's, some advanced agricultural countries in the world have gradually developed a new organizational form of production featured by the combination of agricultural, industrial and commercial activities. Despite the different names used in different countries, such as agricultural company, agricultural enterprise, joint agricultural and industrial enterprise, joint agricultural and industrial company, agriculture-industry complex and so forth, they all have one feature in common, that is, within each enterprise, agricultural production, processing and marketing agricultural products are organically combined to form a single body (in our country, it is symbolically called a "dragon" of agriculture, industry and commerce). This organizational form of production has extensively developed since the 1960's in many advanced agricultural countries. Some countries regard this as a basic organisational form, and have popularized them in the countryside throughout the country. Our country is now trying out this type of enterprises among the state farms in some areas and among some rural people's communes. Joint agricultural, industrial and commercial enterprise is now the vogue throughout the world.

The experiment of agricultural, industrial and commercial enterprises is an innovation in our country. It has attracted the attention of our economic workers and economic theorists and raised a series of problems which must be solved. For example, is it necessary for our country to form joint agricultural, industrial and commercial enterprises at present? What advantages can be derived from these joint enterprises? How will these enterprises be run in the light of our national characteristics? What changes in economic relations will they bring about? This and so forth. All these questions should be discussed theoretically on the basis of actual conditions in our country. This article will present some views on the questions concerned.

## 1. Combination of Agriculture, Industry and Commerce is the Inevitable Trend of our Agricultural Development.

The joint agricultural, industrial and commercial enterprise is a new organizational and administrative form of modern agricultural economy. It was the outcome of modern agricultural production and has developed along with the progress of modern agricultural production. Its appearance is in response to an objective demand from the development of agricultural productive forces.

In the early stage of human society, when productive forces were backward while agriculture and handicraft were primitive, all agricultural sideline occupations, such as weaving and knitting were closely combined on a foundation of family self-sufficiency economy. With the continued development of the productive forces, particularly the large-scale development of capitalist productive forces, and on the basis of the rapidly rising agricultural labor productivity, agriculture and industry became completely divided and both of them are now independent important material production departments in the national economy. Marx pointed out: "Capitalist production completely tears asunder the old bond of union which held together agriculture and manufacture in their infancy."<sup>1</sup> However, the development of modern productive forces, while disrupting this type of primitive relationship, has also gradually paved the way for the formation of a new and higher form of combination. Thus Marx added: "But at the same time, it creates the material conditions for a higher synthesis in the future, namely, the union of agriculture and industry on the basis of the more perfected forms they have each acquired during their temporary separation."<sup>2</sup> The joint agricultural, industrial and commercial enterprise is that form of "high synthesis" on the basis of agriculture and industrial development.

In the 1950's and 1960's, advanced agricultural countries of the world have gradually realized the modernization of agricultural production. The level of agricultural mechanization now continues to rise, and advanced technical measures of agronomy are extensively adopted. The production of some items has become more and more industrialized under the automatic system. On such a basis, agricultural production continues to develop in the direction of specialized mass production. The commercialization and socialization of agriculture are also continuing. The specialization of agricultural production (or the development of the division of work) in turn demands closer cooperation and coordination among various departments in carrying out agricultural production, and specialized farms are increasingly relying on the industrial and commercial departments for the supply of various means of production and services. The processing industry needs a steady source of supply of agricultural raw materials of the correct specifications, while both agriculture and the processing industry for agricultural products need a broad avenue for the sale of their products at a certain price level. This is an impetus for the development of agriculture along the line of an agricultural, industrial and commercial combination, and both "horizontal combinations" and "vertical combinations" of agricultural, industrial and commercial undertakings are now gradually taking shape.

The 1950's and 1960's was the time for agricultural modernization and the formation of joint agricultural, industrial and commercial enterprises in many advanced agricultural countries. The modernization of agricultural equipment, of agronomic techniques and of agricultural management are the three indispensable components of agricultural modernization. Production determines management, and management in turn has its countereffects on production. The modernization of agricultural production demands the organizational and administrative form of joint agricultural, industrial and commercial enterprises, while the development of such an organizational and administrative form also promotes the development of modernized agricultural production. They jointly form a technical and management system for modernized agricultural production and give an impetus to agricultural production in its rapid advance.

There have been different views on our experimentation on joint agricultural, industrial and commercial enterprises. For example, some comrades held that "farms should take care of farming. Their industrial and commercial activities means their departure from their own profession." Others held that "joint agricultural, industrial and commercial enterprises are the result of foreign experiences which are not suitable for China." Still others held that "with our present low production level, we are not yet in a position to run joint enterprises." This and so forth. I feel that all these views deserve discussion. First, joint agricultural, industrial and commercial enterprises are built on the foundation of specialization and socialization of agriculture and of the development of commodity production. They are the outcome of the development of agricultural economy of a commodity nature, and the trend of modern agricultural development. Since our country's agriculture also belongs to the commodity economy, joint agricultural, industrial and commercial represents the trend of the development of our modern agriculture. At present, the levels of our agricultural specialization and commodity production are still low. However, after eliminating the interference from the ultra-leftist line pushed by the "gang of four," we have the conditions for further developing production. In some areas, a certain amount of agricultural products have become commodities, and conditions there are ripe for the experimentation of joint agricultural, industrial and commercial enterprises. In implementing the two documents of the Party Central Committee on agricultural development, we consciously carried out the policy of "taking grain as the key link, insuring an all-round development, and working out measures suitable to local conditions for an appropriate concentration of efforts" and set up solid bases for the production of agricultural commodities. In due course of time, there should be a fairly large-scale development in the specialization of our agriculture and the production of agricultural commodities. We should earnestly try to understand objective economic laws, and carry out experiments on joint agricultural, industrial and commercial enterprises. Secondly, socialist-planned economy calls for planned and proportionate distribution, organized labor, and conscious efforts in the full utilization of agricultural manpower, materials and natural resources. Since agricultural labor power is of a seasonal nature, we have made full use of rural labor power for developing joint agricultural, industrial and commercial enterprises and for processing and selling agricultural

sideline products in order to create more wealth. Agricultural sideline products have the characteristic of being low in value, easily perishable, and large in quantity. Therefore, processing facilities have to be set up near the source of raw materials so that they can be processed promptly and locally. The establishment of joint agricultural, industrial and commercial enterprises will reduce the intermediate links of transportation and avoid losses and waste. Marx said: "Time-saving and the planned allocation of labor time among different production departments is "the primary economic law of a society on a collective basis." Prugality is an inherent necessity of socialist economy. Since the present level of specialization and socialization of agriculture in our country is low, it is also an impetus for the establishment and development of our joint agricultural, industrial and commercial enterprises.

## II. The Important Role of Joint Agricultural, Industrial and Commercial Enterprises in our Socialist Construction

In the course of experiment of joint agricultural, industrial and commercial enterprises, some comrades held that the purpose of joint undertaking is only a redistribution of profits between industry and commerce. Therefore, they suggested that as long as investment in agriculture, is increased, the problem of agricultural development will be solved, and there should be no need for joint agricultural, industrial and commercial enterprises. In fact, the role of joint agricultural, industrial and commercial enterprises in socialist economic construction is far more than that.

First, on the basis of promoting production and facilitating consumption, these enterprises can better satisfy people's requirement for agricultural production. From the experiments, we can see that the establishment of these joint enterprises has generally promoted the development of agricultural enterprises in the direction of specialization and mass production. At present, the experiment of joint agricultural, industrial and commercial enterprises among state farms mainly take three forms. First, the integration of various farm units within the agriculture-reclamation system; second, the integration of farms and other units outside the agriculture-reclamation system; and third, the integration of farms and communes. Regardless of the form taken, the scope of business operation has been greatly expanded. For example, the Chongqing Joint Agricultural, Industrial and Commercial Enterprise was formed of 26 state-run agricultural, herding, and fishery farms in the suburbs. Some units with similarly specialized production but operating on too small a scale also jointed together to form a "dragon" to produce milk, fruits and tea separately, to do processing jobs, and to sell their products. Their specialization was further raised. When joint agricultural, industrial and commercial enterprises have given greater scope to the strong points of specialization and mass production, it will be possible to more extensively concentrate the manpower and material and financial resources for the introduction of new technology, to carry out cooperation through division of work, and thus to raise labor productivity. With better utilization of manpower, materials and natural resources, it will also be possible to undertake some work, which formerly could not be undertaken, and to

further promote production. The General Company of Tianjin Municipal Joint State Farm Enterprise was established in February 1979. In the first half of the same year, its milk output reached an all time high, being 22.8 percent more than the corresponding period of 1978. An abundant supply to the market is now basically guaranteed. Furthermore, the sale of butter, condensed milk, fresh cream and other traditional products, suspended for 10 years, is now resumed, thus setting up a stronger material basis for taking care of people's consumption. In serving consumption, these joint enterprises have strengthened the organic ties between agriculture, industry and commerce and thus helped promote the production, processing and selling agricultural products in a planned and coordinated way. At the same time, the integration of production, processing and marketing has reduced many intermediate links, which not only reduced expenses and possible damage, but also, through its highly sensitive reflection of market conditions and its flexibility, increase the adaptability of the products to the market. In this way, the agricultural sideline products will be more suitable to the market and can quickly find their way to the market to maintain the balance between supply and demand. Since they are fresh and of lower prices, market consumption will be better served. The establishment of joint enterprises in many places has led to increases in the varieties of vegetables. Furthermore, the appearance of fine quality goods and newly caught fish in the market is warmly welcomed by the consumers. Ours is a socialist country, and the basic goal of socialist production is to provide more and better industrial, agricultural and other products to satisfy the people's constantly growing demands in their material and cultural life. The establishment of joint agricultural, industrial and commercial enterprises, on the basis of promoting production, can better satisfy the requirements of the broad masses for agricultural sideline products in their daily life. This is the fundamental role of these joint enterprises, and how they have acquire their strong vitality.

Secondly, these joint enterprises can help in the accumulation of funds for the modernization of our agriculture. Modernization is the main way out for our agriculture. However, because of our weak economic foundation, the problem of funds for agricultural modernization is a big one. For agricultural modernization, the state naturally has to provide strong supports, such as by increasing investments in and extending loans for agriculture. Our country is large, but poor, and our present economic power is limited. Therefore, state investments alone is far, far insufficient for the solution of the problem of funds required for agricultural modernization. Agriculture itself must expand its own accumulation. But how can we increase the internal accumulation of agricultural enterprises. First, we have to tap the existing potentials, increase production and practice economy, and develop the all-round production of agriculture, forestry, animal husbandry, sideline production and fishery. But this is still not enough. According to the data of an experimental unit in agricultural modernization, agricultural mechanization alone calls for an investment of 200 yuan for every mu, and the annual accumulation capacity of each mu of farmland is only 5 or 6 yuan. Of course, multiple undertakings have to be vigorously developed and the way to accomplish agricultural mechanization deserves to be studied.

However, it would be extremely difficult to accumulate sufficient funds to fill this large gap by relying on the present economic structure of agricultural enterprises. The way is the reform of the rural economic structure and the management system by establishing joint agricultural, industrial and commercial enterprises, which will change the character of agriculture as only the supplier of raw materials. Also, through the coordination and cooperation of state industry and commerce, the processing and market 1. of part of the agricultural sideline products can be undertaken by state farms, communes and production brigades, and part of the industrial and commercial profits are left with the countryside. After the establishment of the Chongqing Joint Agricultural, Industrial and Commercial Enterprise, a profit of 520,000 yuan was made from January to September 1979, an increase of 45.8 percent over the same period of 1978 when the integration of agriculture, industry and commerce had not been carried out. This increase of profit actually consisted of three portions: First, the advance return of the "scissor difference" between industrial and agricultural products; second, the additional value created through the activism of the farm workers and commune members after the restructuring to the rural economy; and third, the transfer of industrial and commercial accumulation to agriculture after the change of the management system. While there is hardly any doubt that the first two portions should go to agriculture, and the third and last portion is necessitated by the present weak agricultural foundation in our country. In addition to large amounts of construction funds, the state has supplied no small amounts of relief funds for agriculture every year. After establishing the joint agricultural, industrial and commercial enterprises, part of the industrial and commercial accumulated funds are transferred to agriculture to promote agricultural production. Thus instead of relief funds, they have become construction funds which are beneficial to agriculture as well as the entire national economy.

Thirdly, these joint enterprises are helpful in absorbing more surplus labor power in the countryside and in speeding up the industrialization of the countryside, which is an important component of the socialist industrialization of our country. The elimination of the differences between industry and agriculture, between urban and rural areas and between mental and manual labor is in line with the long-range plan to realize communism. At present, our agricultural foundation is very weak and must be greatly strengthened. In adopting any measure, we must have in mind our distant goal, and combine the gradual realization of rural industrialization with the gradual realization of agricultural modernization in order to gradually eliminate the three major differences.

Our social, natural and economic characteristics make it necessary for our country to take its own road in agricultural modernization and rural industrialization. The large amount of rural labor power saved from agricultural modernization should be rationally disposed of, while intensive and meticulous farming should be stepped up so as to raise the per-mu output. We should also vigorously develop a diversified economy of agriculture, forestry, animal husbandry, sideline occupation and fishery, and so forth.

The establishment of joint agricultural, industrial and commercial enterprises and the processing of agricultural products will open a new avenue for the rural labor power. These are good potentials for the development of our rural industry including the accommodation of surplus rural labor power. After the establishment of the Changting Joint Agricultural, Industrial and Commercial Enterprise, 21 surplus workers of Huangjuedu Diary Farm were transferred to the diary products company and the production of dextrin was resumed. After the establishment of Changheng Joint Agricultural, Industrial and Commercial Enterprise in Beijing, more than 1,000 surplus rural workers were used to develop the construction company of the joint enterprise. Running joint agricultural, industrial and commercial enterprises for accommodating surplus rural workers is by no means a temporary expedient. Hereafter, the gradual development of this form of joint enterprises will play an important role in eliminating the three major differences.

### III. Joint Agricultural, Industrial and Commercial Undertakings Should Put Agriculture in the First Place

The main purpose of setting up joint agricultural, industrial and commercial enterprises in our country is to create more social wealth through the full and rational utilization of our manpower and our material and natural resources. Our present agricultural foundation is very weak and has become a serious drag on the entire national economy. The promotion of agricultural production is an urgent task. Therefore, in developing joint agricultural, industrial and commercial enterprises, particularly the experimentation of the joint enterprises among some state farms and people's communes at present, agricultural development before there can be an abundance of agricultural and sideline products or any overall industrial and commercial development, and before we can lay a solid material foundation for the industrial and commercial development inside the joint enterprise. Judging from some experiences of the experimental units and the rural people's communes and production brigades in undertaking industry, we must correctly adjust the following two relationships in setting the business orientation of future joint agricultural, industrial and commercial enterprises:

First, the relationship between agriculture on the one hand and industry and commerce on the other must be properly handled. Agriculture, industry and commerce are all components of joint agricultural, industrial and commercial enterprises, and should all be well managed. However, the primary purpose of forming joint agricultural, industrial and commercial enterprises is to develop agriculture rapidly. Agriculture is, therefore, the core of such enterprises. Agricultural production should be the starting point, while the processing and marketing of agricultural products are the extension and continuation of agricultural production. In the course of processing and marketing, the value of agricultural products is increased which means increased income and expanded accumulation for the joint enterprise, which in return further expand agricultural production. In the early stage of joint agricultural, industrial and commercial experiments, some units did more planning for industrial and commercial projects. This method of increasing income, expanding accumulation, and speeding up production is

understandable, however, the two following aspects should be considered: First, industrial and commercial developments are restricted by rural economic conditions, such as the capacity of investments, the amount of electric power, and the availability of processing equipment, transportation and communications facilities, and so forth. At the same time, these developments are restricted by the amount of agricultural raw materials, because people cannot "cook their meals without rice." The slogan "look for rice to cook your own meals" is correct as long as its implication is limited to the need to tap local potentials, to develop the diversified economy of agriculture, forestry, animal husbandry, and fishery and then to develop processing and marketing. Any action beyond this limitation, such as the attempt of some commune- and production brigade-run enterprises to "grap" raw materials everywhere even by competing with large industrial units, is not proper. Joint agricultural, industrial and commercial enterprises should think of the needs for developing agriculture before undertaking any industrial or commercial projects, and should consider the existing conditions before determining the scope of the undertaking. Disregard of the needs of agriculture and the existing conditions in undertaking industrial and commercial projects should be prevented. Secondly, when revenues are increased as a result of industrial and commercial undertakings, attention should be paid to the economic accounting of agriculture. Besides agriculture, joint agricultural, industrial and commercial enterprises should also engage in industrial and commercial activities in order to increase revenues, which is not only reasonable but also necessary. At present, some of our state farms are still operating at a loss, and among some rural people's communes and production teams, the expenditures are higher than the revenues. In the past, when stress was laid on the need for the per-mu output to reach the target set by the National Program for Agricultural Development, some communes and production brigades one-sidedly strived for high per-mu output regardless of the production cost. Thus many "high-output poor teams" have appeared, and they are in urgent need of increased revenue. The establishment of joint agricultural, industrial and commercial enterprises is thus warmly hailed by the state farms as well as the rural people's communes and production brigades. However, some farms, people's communes and production brigades have attached more importance to the increase of revenue from industrial and commercial sources than to increases from tapping agricultural potentials. Therefore, they are biased toward industry and commerce, little knowing that the purpose of joint agricultural, industrial and commercial enterprises is to improve agriculture, and, while increasing revenues and gradually improving the living conditions of the farm workers and peasants, to expand the accumulation for realizing agricultural modernization and promoting agricultural production instead of simply making up agricultural losses in the manner of "using industry to remedy agriculture."

Secondly, the relationship between agricultural products and nonagricultural products to be processed and sold by the industrial and commercial components. We must first understand that joint agricultural, industrial and commercial enterprises is mainly a form of industrial and commercial activities undertaken by agricultural enterprises. Therefore, their main concern should be

the processing and selling of agricultural and animal husbandry products. Obviously, they must mainly process agricultural and animal husbandry products and then sell them in order that they can count on a full supply of raw materials in the vicinity, comprehensively utilize agricultural sideline products and reduce the links in the circulation and marketing of their commodities. Only by these means can the superiority of joint agricultural, industrial and commercial enterprises be given full play. Secondly, we must also understand that the industrial and commercial activities undertaken by joint agricultural, industrial and commercial enterprises are also components of the entire industrial and commercial sectors, and that there should be rational division and coordination of work between these enterprises and the state industry and commerce. In the long run, along with the gradual development of various state industrial production and in accordance with the special features of the joint agricultural, industrial and commercial enterprises, it may be desirable to gradually transfer the processing, particularly the primary processing, of agricultural products to these joint enterprises, under suitable conditions. The state industry can then have more time to make use of their better equipment and technological forces for the development of "sophisticated" processing of other industries. This method will certainly help improve the social economic results. Of course, we must resolutely prevent any competition for raw materials between these joint enterprises and the large industries which will result, on the one hand, in some high efficiency machinery and equipment operating under capacity or being left idle, and on the other hand, the "bustling scene" of small indigenous equipment operating at low efficiency and causing waste. At present, some industrial and commercial enterprises have formed joint operation with agricultural enterprises. in this way, they have given play to the role of the joint agricultural, industrial and commercial enterprises, made full use of existing equipment, and promoted agricultural production. This method should be affirmed.

#### IV. Restructuring of Economic Management System Is Required in Running Joint Agricultural, Industrial and Commercial Enterprises

At present, in experimenting the operation of joint agricultural, industrial and commercial enterprises, some comrades of the planning, industrial and commercial departments are worried that these joint enterprises may "upset the plans," and "disturb the market." On the other hand, the comrades of some experimental agricultural enterprises complain of "running into a stone wall everywhere" and "having difficulty in moving a single inch." These two different views reflect the contradiction between joint agricultural, industrial and commercial enterprises as a new form of agricultural enconomic organization and management and our existing system of economic management. Judging from the problems already shown in the experiments, we can see two main problems:

First, the problem of our system of planned management. Our socialist economy is both planned economy and commodity economy. Giving full play to the role of the law of value will help arouse the enthusiasm of the agricultural enterprises and the broad masses of farm workers and commune members, and further promote agricultural production.

Reviewing our past experiences in national economic construction, we can see certain defects because in certain respects, the planned control of the national economy has been overrigid, and the nature and role of the law of value was not fully recognized. Therefore, in agricultural production and the circulation of agricultural products and commodities, the regulative role of the law of value on socialist production could not be used to better advantage. It has in varying degrees damped the enthusiasm of the agricultural enterprises, and the broad masses of farm workers and commune members. Ours is a socialist country, and it is beyond doubt that planned economy should occupy the dominating position. In the actual practice of planning, however, the agricultural planning cannot, and has no need to, include the whole process of agricultural production and the marketing of agricultural products. Many comrades have proposed the use of indirect planning and the reduction of planned items. As to marketing, many agricultural products belong to the "third category materials" and some are relatively insignificant to the national economy and the people's livelihood; there is no need to include these products in the plans. Some miscellaneous items are so numerous and loose that planning for them is difficult, while other items are so perishable that planning would be inconvenient. In the past, instead of planned procurement, the form of negotiated purchase was used for these items. For a time, however, some regions and departments have unconsciously controlled them in the same rigid way as they did for other planned products with respect to quantities, varieties and prices, with serious effects on the production and marketing of these products. Joint agricultural, industrial and commercial enterprises function like enterprises; therefore, full scope should be given to the role of the law of value in order to further arouse the enthusiasm of the joint enterprises, and the broad masses of workers and commune members and to improve the production and work agriculture, industry and commerce.

Secondly, the problem of the management system of the departments of the national economy. The establishment of joint agricultural, industrial and commercial enterprises is a reform of our rural economic structure which affects not only agriculture, industry and commerce, but also capital construction, communications, foreign trade, labor, finance, materials, credit and the work of various departments; and the relations of production and the superstructure. From the situation of the experimental joint agricultural, industrial and commercial enterprises, we can see rather striking contradictions between them and commerce. Some comrades said: In running joint agricultural, industrial and commercial enterprises, "the difficulty lies with commerce." According to the present management system, the sugar produced by the Shihezi Joint Agriculture, Industrial and Commercial Enterprise of Xinjiang, has to be procured by a procurement center of the commercial department as a higher level from the joint enterprise and later returned to the food processing plant of the enterprise to be made into candy or some food. These processed products are again procured by the commercial department and again returned to the joint enterprise to be sold. Thus from the production of agricultural products to the sale of processed commodities to the customers, four intermediate links are involved; and in

the joint enterprise or the "dragon" of production, processing and marketing, the commercial department has to intervene twice, thus turning the food processing plant of this joint enterprise into a processing plant for the commercial department to process their materials. This is contrary to the rational economic principles and created contradictions between departments. At the same time, because of the experiment of the joint enterprises, the processing and marketing of part of the agricultural productions have to come under the control of the agricultural departments, thus severing their connections with the commercial or foreign trade departments. With the blocking of the channels for the supply of funds, equipment and raw subsidiary materials, which the agricultural departments are unable to provide, the joint enterprises have to face many difficulties in processing and marketing. In addition, other contradictions have also emerged in varying degrees in their relations with other departments. These problems are not caused by the departments concerned but rather by the entire system of departmental control in our country under which the originally close organic relations in the production, processing and marketing of agricultural products are replaced by a strict division into control by different departments. The development of our socialist construction demands that all these departments be organically and closely combined and is now in conflict with the existing system of departmental control. This problem cannot be solved by either the agricultural or the commercial departments, and the key to the solution lies in a restructuring of our economic control system. Reviewing our experiences over the past 30 years, we can see that many aspects of our economic management system and management methods are not consistent with the development of our national economy. In his Report on the Work of the Government delivered at the Fifth National People's Congress, Comrade Hua Guofeng called for an overall reform of the structure of the economy management to be carried out firmly and step by step, and told us that after exploration, experiment and practice in 3 years, we must formulate a series of measures which will give industrial, agricultural, transport and communications, and commercial enterprises the necessary power to make their own decisions and take initiatives in production and management in accordance with the needs of society, so that production will be closely linked on the one hand with supplies of raw and semi-finished materials, and with the marketing of their products on the other, and thus correcting the dislocations between supply, production and marketing. We must firmly implement the Party Central Committee's policy of "readjustment, restructuring, consolidation and improvement" in order to pave the way for the establishment of our joint agricultural, industrial and commercial enterprises.

(January 1980)

FOOTNOTES

1. Marx, "Das Kapital" Vol 1, People's Publishing House, 1975, p 551-552.
2. Ibid, p 552.
3. Marx, "Grundrisse" Vol 1, People's Publishing House, 1975, p 11.

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## NATIONAL ECONOMIC POLICY

### PLANNING IN ORDER OF AGRICULTURE, LIGHT INDUSTRY, HEAVY INDUSTRY DISCUSSED

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 80  
pp 26-32, 41

[Article by Wang Yongyin [3769 3057 6892]: "On Formulating Plans in the Sequence of Priority of Agriculture, Light Industry and Heavy Industry"]

[Text] Our national economy is now undergoing readjustment, and the important task in this economic readjustment is to correct the long-standing imbalance between agriculture and the light and heavy industries in a planned and systematic way. Under such conditions, it is necessary and of practical significance to thoroughly understand the importance of Comrade Mao Zedong's planning in the order of agriculture, light industry and heavy industry, and to draw lessons from experiences in handling the relationships between them.

#### I. The Need for Planning According to the Order of Agriculture, Light Industry and Heavy Industry

The national economic plan based on the order of agriculture light industry and heavy industry was put forward by Comrade Mao Zedong at the Lushan Meeting in 1959. This was a correct guideline which must be followed in economic planning. Why must our planning be based on this instead of any other order? Within what scope is this principle applicable in regard to time and space? How is this principle related to the Marxist theory of reproduction after all? These are the questions first encountered and calling for answers in our study and solution of the problems of agriculture and light and heavy industries.

For a long time, people have been in the habit of explaining the need for the order of agriculture, light industry and heavy industry in development by pointing out that agriculture is the foundation and that light industry yields accumulation funds faster. This explanation, though reasonable in some way, cannot be entirely convincing. Agriculture as the foundation of national economy is based on a universal law applicable to any country at any time. If it is claimed that agriculture as the foundation should occupy the first place in the development of national economy, all countries in the world should without exception follow the same order. But this is contrary to the facts.

Some countries attaching great importance to agriculture have been very successful in economic development, but others mainly relying on imported agricultural products instead of developing their own agriculture to meet their own needs have also undergone rapid economic development. Marx analyzed this phenomenon long ago and concluded that "agriculture at a certain stage of development at home or abroad is the foundation of capital development."<sup>1</sup> In other words, agriculture as a foundation can be established at home or abroad, and it is not necessary that agriculture should occupy the first place in economic construction. It is also a fact that light industry has the special advantage of yielding accumulation quickly, but not all countries attach importance to it just because of this advantage. It is true that some countries in the world have developed their economy by developing light industry first; but other countries, like Iran, Saudi Arabia and other Middle East countries mainly rely on such heavy industry as petroleum for their accumulation. To explain why other countries need not follow the order of agriculture, light industry and heavy industry as we do, we must carefully study the particularity which differentiates our own country from other countries, and proceed from actual conditions in looking for the objective basis for the principle behind the order of agriculture, light industry and heavy industry in order to demonstrate the historical inevitability.

On such an understanding, there are probably three causes for our need to follow the agriculture, light industry and heavy industry order.

First, we have a large population and the important problem of feeding people requires the solution to be found within our own country. Some countries have small populations and their food problem is not serious. It is, therefore, entirely possible for them to import grain from other countries having a surplus of agricultural products. For our country with more than 900 million people, at least 480 billion jin of grain is required annually to feed them. If we have to rely on outside help to solve the problem of feeding this huge population, no other country is capable of rendering the required help. At present, the total annual export of grain in the world is only slightly more than 300 billion jin. Furthermore, for various reasons, we do not have sufficient foreign exchange to buy so much food. It may be possible for us to import some, but not too much, at certain times, but the best way is to rely on the development of our own agriculture as a solution to the problem of feeding our people. Food is most important to people, and our country, having one-fifth of the total world population, should pay greater attention to the production of food than any country would.

Secondly, agriculture as the foundation of our entire national economy must be developed as our foremost concern in order that the national economy can continue its rapid progress. Some countries are paying little attention to agriculture simply because in the economic system of the capitalist world, they enjoy some favorable conditions which enable them to obtain the agricultural products, which are indispensable to their economic development.

through international division of work, we do not belong to this type of country. We are expanding our economic trade contacts with foreign countries by giving full scope to our strong points instead of being cut off from international intercourse. But this type of economic contact and cooperation should never develop to such an extent that we may lose our independence in the economic system of the "great community" of the capitalist world. Nor should our economic development be built on the agricultural foundation of another country. The social nature of our country does not permit either our being controlled by others or our controlling others. This consideration determines the need for us to establish our own independent and relatively complete industrial and economic system under the guiding principle of mainly relying on ourselves and striving for foreign aid as a supplement. We should basically rely on our internal resources as a means of meeting our needs for developing our industry and the entire national economy. At the present stage, we can say that the overwhelming majority of materials required for developing our industry and the entire national economy, such as grain and other agricultural and sideline products required by the labor power of various departments and the labor power engaged in reproduction; and the agricultural raw materials required for light industrial production and for state accumulation funds, are directly or indirectly supplied by agriculture. The ability of agriculture to provide these basic conditions has a decisive effect on the all-round development of the entire national economy. At present, our agriculture is quite backward, and if the efforts of 800 million peasants, including 300 million able-bodies, still cannot help us attain self-sufficiency in agriculture, there will be a drag on the development of industry and the entire national economy. To accelerate the development of industry and the entire national economy, we must first vigorously develop our agriculture.

Thirdly, the consumption level of our people is quite low, and people's daily needs are mainly dependent on agriculture and light industry. Compared with those of the economically developed countries in the world, the levels of income and consumption of our country is low. At present, the average monthly wage of our workers and staff members is only 54 yuan, and the average annual income of each peasant from the collectives is only 83 yuan. This makes it necessary and natural for everyone planning his own way of living to first satisfy his own basic needs before he can become well-to-do enough to consider buying such expensive items as television sets. Thus agriculture and light industry which mainly produce daily necessities are particularly significant in meeting people's consumption. At present, agricultural and light industrial products required for people's food and clothing amount to 74 percent of the total volume of retail sales for social consumption. If other light industrial products and the nonmarketable grain consumed by the peasants themselves are taken into account, the ratio of agricultural and light industrial products in the total amount of people's daily consumption will be even higher. On the other hand, the direct effect of heavy industry on people's daily living is relatively small. The purpose of socialist production is to satisfy people's daily needs. When people have to rely mostly on agriculture and light industry in their daily life, agriculture and light industry naturally deserve primary consideration in the formulation of plans. This is determined by the basic socialist economic law.

It is true that along with the change of the above factors in the process of economic development, the order of agriculture, light industry and heavy industry can also change. In a country, after all, the lower are the economic level and the corresponding standard of living, the greater will be the reliance on agriculture and light industry. On the other hand, the higher are the economic level and the corresponding standard of living, the less will be the reliance on agriculture and light industry. This has become a law. When our economic level and the corresponding standard of living have been raised to a certain extent--that is, when there will be no more problem with agriculture and our birth rate has been suitably reduced--industry's reliance on agriculture will be reduced, and agriculture, even though slowly developing will be sufficient to meet various needs. People's standard of living will also rise to such an extent that whatever they spend on their food and clothing will form only a minor portion of their total outlay, and the major portion of it can be used for purchasing television sets, household electric appliances and some durable consumer goods, which are now rather rare. By that time, there will be certain change with the order of agriculture, light industry and heavy industry. Our national economy should change from a light industrial structure at present to a heavy industrial structure later. In order to accomplish this historical change, we should strive for modernization of a Chinese pattern, and continue to improve people's livelihood through production development. This should be beyond doubt. However, the fundamental change of these factors cannot be brought about in a brief period. Before then, we should continue to follow the order of agriculture, light industry and heavy industry. Instead of a temporary expedient, this will be our consistent policy for a fairly long time to come. It would be wrong if we fail to see that the order of agriculture, light industry and heavy industry is the outcome of the development of our production at a certain stage instead of being part of our permanent policy. Yet if we fail to see that it will take a very long time to change the objective conditions on which the change of the order depends, and prematurely abandon this policy; or if our confidence in this order is shaken as soon as our agriculture and light industry shows some improvement, it will be equally wrong.

Planning according to the order of agriculture, light industry and heavy industry is consistent with the Marxist theory of reproduction which holds that, speaking of the two major categories generally, the growth of the means of production will be quicker than that of the means of subsistence because of the rise of organic composition resulting from advanced technology. However, the two major categories are interdependent, and mutually supplementary and regulative. The means of production cannot grow in isolation from the growth of the means of subsistence, because it is the final analysis restricted by the conditions of production of the means of subsistence. We develop heavy industry, which mainly produces the means of production, on the basis of full agricultural and light industrial developments precisely because we want to avoid any dislocation between the production of the means of production and the production of the means of subsistence. If you really want to develop heavy industry and are quite

serious about it, you should first pay attention to agriculture and light industry. Developing heavy industry by strengthening agriculture and light industry first will in the long run enable heavy industry to develop more extensively and rapidly. If you agree that the faster production of the means of production than the production of the means of subsistence is the natural outcome of the harmonious development of the two major categories, then planning according to the order of agriculture, light industry and heavy industry is the most effective way to accomplish industrialization in our country. It is wrong to set this order against the priority growth of the means of production. Furthermore, when we say that planning should be based on the order of agriculture, light industry and heavy industry, we do not mean that in the allocation of state investment, agriculture should have the largest portion, light industry should have the second largest and heavy industry should have the smallest portion. We only mean that in working out the national economic plan, we should first see that the requirements for the development of agriculture and light industry are met to the maximum extent, though heavy industry generally will have the lion's share of investments and materials. In the long run, the development of the production of the means of production will be quicker than that of the means of subsistence, because in our country, agriculture is basically under the system of collective ownership, and the material conditions for developing agriculture are mostly dependent on collective efforts; and in the organic composition of agriculture, the ratio of living labor is higher. Therefore, although agriculture is given priority consideration at the time of planning, the share for agriculture of state funds and materials cannot be, and is not expected to be, the largest. Light industry has a comparatively high organic composition. However, since its production cycle is short, the turnover of funds and materials is fast, and the collectively owned enterprises, which are not included in state plans, are quite many, the share of funds and materials for light industry cannot be the largest either. Heavy industry, however, requires long construction periods, yields slow results, takes up more funds, consumes more materials and are basically owned by the whole people. To guarantee its regular production and construction, suitable arrangements must be made for allocation of funds and materials. Since planning based on the order of agriculture, light industry and heavy industry by no means negates the key position occupied by heavy industry in the allocation of funds and materials, the priority development of the production of the means of production is amply safeguarded.

Planning according to the order of agriculture, light industry and heavy industry has a close bearing on our modernization drive. Our goal is to build our country into a fairly well-to-do society within the next 20 years, and then enable it to join the ranks of the modern powers. We must have the necessary conditions for the healthy and normal development of our economy at a sustained high speed. Therefore, we must follow the correct policy, properly handle the various economic ratios, including those among agriculture and the light and heavy industries, and guard against serious setbacks in our economic life. Planning according to the order of agriculture light industry and heavy industry is precisely the correct policy we

have discovered in practice for guarding against imbalances and for safeguarding healthy economic development. Reviewing the history of our socialist economy construction, we can see that whenever we effectively implemented the policy of priority for agriculture, light industry and heavy industry in that order, the entire national economy would develop smoothly and rapidly; and that whenever we deviated from this policy and gave prominence to heavy industry in isolation from agriculture and light industry, the entire national economic development would suffer setbacks and slow down. We must firmly adhere to this policy and develop agriculture, light industry and heavy industry in harmonious proportion before we can create the conditions for the healthy, normal and rapid development of our national economy and avoid severe setbacks. Only thus can our national economy develop steadily and rapidly, until we reach our great goal of building our country into a modern powerful country.

## II. Several Problems to be Noted in Planning According to the Order of Agriculture, Light Industry and Heavy Industry

If planning according to the order of agriculture, light industry and heavy industry is to be an important policy which must be followed, then the question of its application in practical work and the effective way to apply it should be further discussed and studied in practice. Based on our past experiences of success and failure in handling the relationships among agriculture, and light and heavy industries, there are probably three problems worth noting:

First, in planning for the national economy, it is necessary to give first priority to agriculture and second priority to light industry in the allocation of manpower, materials and money. This is the key to planning in the order of agriculture, light industry and heavy industry. The allocation of manpower, money and materials among agriculture and light and heavy industries should vary according to the actual conditions of different periods and different years instead of following inflexible predetermined ratios. At the same time, the ratios should be based on both requirement and possibility. As for requirement, priority in meeting the material requirement of agriculture and light industry does not mean the supply of any quantity requested without considering the basis of the request and without using any judgement. The requirement should not include high targets and quotas which are divorced from reality; instead, it should be an indispensable factor in guaranteeing the harmonious development of various departments of the national economy and in maintaining a normal growth speed and production level. There are objective criteria for this normal growth speed and production level. For agriculture, the supply of the main agricultural products from a developed agriculture should be sufficient to meet the daily consumption of the newly increased population, the requirement of industry for maintaining its steady development, the requirement of agriculture itself for seeds, fodders and so forth to be used for expanded reproduction, and the requirement for raising the level of consumption of the original population. Agriculture is subjected to the influence of natural conditions, and, of course, there can be either good or poor

harvests in different years, however, in normal years and based on the average level, such a standard cannot be excessive. For light industry, the criterion for normal growth, speed and production level is that the supply of daily necessities should be able to meet the many and varied requirements of people's daily life, so there will be a balance between the light industrial and agricultural products in addition to other consumer goods on the one hand and the normal growth of social purchasing power on the other. Furthermore, in working out specific plans, we should make rational arrangements on the basis of our actual material resources instead of considering only the requirements but not the actual possibility. If the state is rich in manpower and material financial resources, we should meet, or basically meet all the material requirements of agriculture and light industry. If the state is not rich in manpower and material and financial resources, then the allocation of agriculture and light industry should be a little less, but still not less than the allocation for heavy industry. If the supply of state manpower and material and financial resources is tight, then it is necessary to first insure that the minimum requirements of agriculture and light industry for producing the daily necessities are met. In other words, we must first protect the reproduction of labor power in order that their standard of living will not become low enough to affect their health, before attending to other aspects. This principle of allocation is absolutely necessary for preserving social stability and developing production.

Secondly, we have to correctly handle the internal proportionate relationships of agriculture and light and heavy industries. This is an important condition for insuring that agriculture, light industry and heavy industry will cater to the needs of one another and that they will all develop in harmony. To play its own basic role in the development of the entire national economy, agriculture must properly handle its internal relationships among agriculture, forestry, animal husbandry, sideline occupation and fishery in addition to rational arrangements for grain, cotton, edible oil, hemp, silk, tea, sugar, vegetables, tobacco, fruits, medicinal herbs and miscellaneous crops. In our country where there is an urgent need to solve the problem of feeding more than 900 million people, attention to grain production in developing agriculture must be affirmed. At the same time, the all-round development of agriculture should receive due attention; otherwise there will be insufficient agricultural raw materials for light industry with adverse effects on market because of the failure of light industry to keep up its supplies. Therefore, in agricultural planning, including the setting of targets for the quantities of different products, the allocation of materials and other concrete measures, there should be overall consideration of all factors instead of any single factor. In working out the price policy, the policies for prescribed purchases or procurement quotas, the policy of grain rationing and the policy of rewarding, the state should give overall consideration to grain crop areas, cash crop areas, and other multiple undertakings areas so that each of these areas can get what it wants and display its own activism. This will prevent abnormal changes in the makeup of agricultural productions brought about by ill-considered

policies. We should also strongly support the areas designated for the concentrated production of these raw materials in order to guarantee a steady supply of agricultural raw materials required for industry. By these means, even though the grain output may be reduced in certain areas, there will be greater economic value for the whole country and obvious advantages to the market of light industry and to export in foreign trade. Furthermore, the development of a diversified economy will increase the supply of chickens, ducks, fish, meat, eggs, vegetables and milk, and people's consumption of grain will be correspondingly reduced. The pressure of grain production on agriculture will also be gradually reduced. It is, therefore, incorrect to set taking grain as the key link against the overall development of agriculture.

Light industry is one of the departments to supply consumer goods in the market. In view of the position occupied by light industry in the national economy and the role it plays, two problems should deserve attention in the implementation of the agriculture-light industry-heavy industry policy. First, the problem of the makeup of products. Light industry should produce more daily necessities suitable for the countryside so as to obtain more agricultural products in exchange from the peasants and to meet the requirements of marketable grain and agricultural raw materials. Second, the problem of the makeup of raw materials. At present, 70 percent of the raw materials for light industry come from agriculture which has a decisive effect on the development of light industry. Because of our backward agriculture, the growth of raw materials for light industry is very slow and not even steady, thus restricting the growth of light industry. While vigorously developing agriculture, we should also quickly change the over-reliance on agriculture by light industry; otherwise light industry will not be able to meet the requirements of the rapidly growing social purchasing power. We must have the determination to increase the ratio of industrial raw materials and decrease that of agricultural raw materials in the makeup of raw materials. This is the trend of time. In the economically developed countries at present, industrial raw materials are mainly used in the production of daily necessities. Our country too should be advancing in the same direction. In recent years, we have made remarkable progress in the chemical industry, and the ratio of the output value of light industrial products using industrial raw materials to the total light industrial output value has increased from 12.5 percent in 1952 to 31.6 percent. The appearance of chemical fibers has in particular substantially replaced cotton and reduced the burden of agriculture to a certain extent. This is one of the effective means of changing the raw material makeup, and should be vigorously promoted.

The main role of heavy industry is to use the means of production to supply technical equipment for various departments of the national economy. In arranging the internal proportionate relationships, the most important point is to solve the problem of relationship between serving agriculture and light industry and serving heavy industry itself, and to see that the development of heavy industry should be oriented to the acceleration of

agricultural and light industrial developments. In planning for the structure of production and the makeup of products for heavy industry, first priority should be given to the production of the means of production required by agriculture and light industry, and second priority should be given to the production of the means of production required in manufacturing the means of production required by agriculture and light industry. Finally, the production of the means of production required by heavy industry for serving other purposes should be insured. What agriculture requires from heavy industry are mainly farm machines, chemical fertilizers, insecticides, electricity, plastic sheets and so forth. What light industry requires from heavy industry are mainly machinery and equipment, raw and semi-finished materials, fuel, power and so forth. In meeting these demands from agriculture and light industry, heavy industry should not only supply the required quantities but also produce the correct varieties, specifications and models. The products should be durable and their quality should be up to the required standard. It should be admitted that since the founding of the People's Republic, heavy industry, in the course of its development, has done a great deal of work in supporting agriculture and light industry. However, compared with those of agriculture and light industry, the need for the speedy development of heavy industry is far less urgent. Sometimes, the farm machinery supplied by heavy industry for agriculture is not in complete sets; sometimes, the price is too high, the quality is poor and the spare parts and accessories are not enough. Therefore, the machinery cannot be used to full advantage. The varieties and quantities of chemical fertilizer and high-efficiency and low-toxicity insecticides are inadequate for the requirements of agricultural development. The raw and semi-finished materials provided by heavy industry to light industry, such as steel products, chemical raw materials, and so forth sometimes fail to meet the varieties and specifications, and are sometimes supplied in insufficient amounts. All these problems should be carefully solved through a readjustment of the internal structure of heavy industry and the adoption of effective measures.

Thirdly, the production targets and scope of construction for heavy industry cannot be separated from what is permitted by the supply of consumer goods, and must not be set too high in disregard of agriculture and light industry. Heavy industry should set its own production targets and scope of construction properly in accordance with the material conditions provided by agriculture and light industry. Disregard of the regulatory role of agriculture and light industry and leaving heavy industry to entirely to subjective will certainly have serious consequences. After liberation, we have several times reduced the number of workers and nonagricultural population, mainly because the targets, particularly the target for steel were set too high for heavy industry, and these high targets called for a correspondingly large scope of construction and an excessive number of workers and staff members. The end result was that agriculture and light industry were over-burdened with the supply of consumer goods. In 1958, the call for doubling the output of steel brought about a rapid development of heavy industry, and the ratio of investments on heavy industrial capital construction in the total amount of investments jumped from 45 percent in the first five-year plan period

to 57 percent, and the number of workers and staff members sharply increased by 20 million. At the same time, the ratio of agricultural workers to industrial workers was lowered from 11.8:1 to 5.7:1. The ratio of investments in light industry and the ratio to light industrial consumption of steel products in the market were lowered from 5.9 percent and 20.7 percent in 1957 to 4 percent and 10.2 percent in 1960 respectively. On the one hand, the sharp increase of workers demanded that light industry should produce more consumer goods for the market; on the other hand, insufficient support was given to agriculture and light industry in the production of consumer goods. This unavoidably brought about an imbalance and finally forced heavy industrial to a halt. The scope of capital construction was reduced and some 20 million excess workers had to return to the countryside in order that agriculture would have a suitable base. In 1972, the number of workers, their total payroll, and the grain consumption all exceeded the state plan for the same reason. From this, we can see that if we want to control the number of workers and the nonagricultural population within the limits permitted by the supply of consumer goods, the key lies in the control of the heavy industry production target. At present, when the production levels of agriculture and light industry are relatively low, we should pay attention to these three points in preventing an imbalance between the production of heavy industry, particularly the steel industry, and the supply of consumer goods: First, the accumulation rate should not be set too high. An excessive accumulation rate will bring along with it a correspondingly excessive scope of capital construction and an increase of workers. Secondly, in setting the production targets and scope of construction for heavy industry, we must not only strictly observe the actual possibility permitted by the amount of funds, materials and equipment, but also carefully consider if the newly added workers and nonagricultural population will exceed the capacity of agriculture and light industry in supplying marketable grain and other consumer goods, and if the transfer of labor power from the countryside will adversely affect the development of agricultural production. Thirdly, we must reform our planning method and place steel industry in a suitable position in the planned and proportionate development of the national economy. Way back in 1954, Comrade Mao Zedong already proposed a change in the method of planning. He pointed out that in working out a plan, we cannot start with a fixed target for steel production and then use this target as the basis for calculating the amounts of coal, electricity and transportation facilities required, and the living conditions and welfare measures of the city population. Instead of this, we should first find out how much grain could be produced, and how much chemical fertilizer, insecticide, machinery, steel and so forth are required. In other words, grain instead of steel should be placed in the primary position, and the order of heavy industry, light industry and agriculture should be reversed as agriculture, light industry and heavy industry. Unfortunately, this correct method of planning was not kept up, and the result was suffering for the people. After our experiences, both positive and negative, all of us should realize the importance of the order of agriculture, light industry and heavy industry, particularly during the period of economic readjustment.

### III. Readjust the National Economy According to the Agriculture-Light Industry-Heavy Industry Policy

During the present economic readjustment, one of the important links and the important tasks to be accomplished in our economic planning is to unswervingly implement the agriculture-light industry-heavy industry policy and to set right the proportionate relationships between agriculture, light industry and heavy industry.

In readjusting the ratios among agriculture and light and heavy industries, we must first ascertain the main problem at present. People in every quarter are now claiming that there are "short lines" which should be further strengthened. If this problem is not solved, economic readjustment will not be able to make much headway. It cannot be denied that every department of the national economy is experiencing certain inconvenience. However, if we will carry out an in-depth analysis of the whole complex economic situation, it will not be difficult for us to discover that among the departments of direct material production, the principal contradictions are caused by a backward agriculture, a weak light industry, and the present tight supply of energy for heavy industry. In the first 11 years after liberation, our production of grain and both animal and plant oil was more than self-sufficient; now we have to import large quantities of them. Furthermore, the import of cotton and sugar is also considerable. Thus, with the exception of pork, the average nonstaple food consumption level has not shown any marked rise; in some cases, it had even declined. In many areas, the peasants are still underfed. Because of the shortage of materials, approximately one-third of the production capacity of sugar refineries throughout the country is left idle. For a long time, our textile and paper-making trades have relied on imported fibers and pulp to maintain their operation. Our light industrial production was already inadequate for meeting people's demand even though the wages of workers had not been adjusted for many years. Since 1977, there have been two general divisions of wage scales, the practice of the bonus system, the increased number of people employed, the raise of agricultural and sideline product prices, and a large increase of social purchasing power; so the shortage of light industrial products in the market is even more keenly felt. The development of our fuel and power industries, though rather rapid for a long time, still cannot keep up with the demands of production and livelihood. Because of the shortage of coal, oil and electricity, many enterprises have suspended or reduced their operation, while many newly constructed projects cannot be commissioned on schedule. It is also quite common for some residential areas to be partially cut off from electricity supply as a means of energy conservation. These three problems are the main indications of imbalance between agriculture and the light and heavy industries which has a strong impact on the entire national economy. Furthermore, the problem of backward transportation and communications facilities is also quite striking, while city construction and some undertakings in culture, education and scientific research have been long overdue. In readjusting our national economy, we must have the determination and use great efforts to strengthen these

weak links by promoting agriculture, light industry, and the fuel and power industries in order to bring about the coordinated development of the entire national economy.

The national economy is an organic entity comprising various departments which are like links in a chain, and disturbance to any one of them may cause a chain reaction. Therefore, in readjusting the relationships among agriculture and light and heavy industries, we must adhere to the principle of safeguarding the key points and attending to the ordinary matters at the same time. While adopting different methods to strengthen the weak links, we should at the same time work out a comprehensive arrangement so that nothing will be left out; otherwise a new imbalance may ensue. Following this principle in the light of existing conditions, we should carry out measures of readjustment in three different aspects.

First, the orientation of investments should be adjusted so that arrangements for agriculture, light industry and the fuel and power industries can be made for their large-scale increase of production. In our country, the ratio of investments in farmland capital construction, from the time of the third five-year plan to 1978, was maintained at about 12 percent, which is unduly low. Thus agriculture has become an increasingly serious drag on the national economy. The ratio of investments in light industry was 5.9 percent during the first five-year plan. At that time, people were quite satisfied with market supplies. Comrade Mao Zedong still thought it was not enough, and in his report "On the Ten Major Relationships," he proposed that the ratio of investment in light industry be further raised. However, his proposal did not materialize for a long time, and the ratio was even further reduced. At the time of the first five-year plan, when efforts were concentrated on building up heavy industry, the ratio of investments in heavy industry was 46.5 percent. However, during the period of the second five-year plan, the third five-year plan, the fourth five-year plan, the fifth five-year plan and up to 3 years ago, this ratio has never been below 53 percent, which was unduly high. Although for some reasons, comparison of these ratio figures cannot be accurate, they nevertheless reflect the imbalance of investments in agriculture, light industry and heavy industry. After the Party General Committee made its strategic policy decision on readjusting the national economy, the state revised the ratios of investment in agriculture, light industry and heavy industry. In 1979, the state raised the ratio of investments in agriculture from 10.7 percent in 1978 to 14 percent; raised the ratio of investment in light industry from 5.4 percent in 1978 to 5.8 percent; and lowered the ratio of investment in heavy industry from 54.7 percent in 1978 to 46.8 percent. After these revisions, agriculture was strengthened; investment in light industry was increased, and the imbalance among agriculture, light industry and heavy industry became less marked. Hereafter, we should as much as possible continue to raise the ratios of investments in agriculture and light industry. Investment in heavy industry should be first used in strengthening energy resources. Since it takes longer to exploit energy resources, we must start spending our money and exerting our efforts now if we want to eliminate the

present disproportion between the extraction of oil and oil reserve, and between coal mining and tunneling, and to guarantee the supply of energy in future years. We must solve the problem as though it is a strategic problem.

Secondly, we have to work out specific policies favorable to the development of agriculture and light industry and to easing the tight supply of fuel and power. Because of the limited amount of available investments during the period economic readjustment and the need to catch up with the many projects in arrear, we must rely more on our policy in accelerating the development of our agriculture, light industry, and the fuel and power industries. This is a good way of achieving marked economic benefits by spending little or no money at all. Last year, the state adopted a series of important policies to strengthen agriculture, such as raising the prices of agricultural products, reducing or remitting part of the tax from commune- and production brigade-run enterprises in economically poor areas, basing state purchase of grain on the 5-year quota, setting a price for above-quota purchases, and respecting the right of communes and production brigades to run their own affairs. These policies has aroused the enthusiasm of the broad masses of peasants and contributed to a bumper harvest in 1979. At present, there are strong potentials for increasing output through the adoption of policies. The influence of the ultra-leftist line have not been completely eliminated in many regions throughout the country, and the party's rural policies have not been completely implemented. In some localities, there are still infringements on the rights of communes and production brigades and blind commandism still remains. The system of ownership has not yet been completely readjusted to suit the development of the productive forces, and business management is not flexible enough. Provided these problems are solved, and full attention is paid to the application of science and technology, agricultural output can be further increased. In strengthening light industry, the state has in the current year adopted the "six priorities" policy--meaning priority supply of raw and semi-finished materials and fuel, priority for measures to be used in tapping potentials, renovation and transformation, priority in planning for capital construction, priority in bank loans, priority in the use of foreign exchange and the importing of technology, and priority in transportation and communications--in order to provide facilities for the growth of light industry and to help it overtake heavy industry. Hereafter, while continuing the policy of "giving a green light" for light industry, we should at the same time strengthen the cooperation and integration of light industrial enterprises. This is a new method to increase the production capacity of light industry. Our energy policy should encourage both the increase of output and the practice of economy. Our present consumption of energy in terms of standard coal is not much different from Japan's, but our industrial output value is only one-quarter of Japan's. From this, we can see that the present tight supply of energy is caused by our high consumption and great waste. As the most efficient country in the world in the utilization of energy resources, Japan has in recent years relied on the reduction of consumption as a means of increasing output.

Since we have far greater potentials in energy conservation, increasing output through energy conservation should be the main way for us to develop our national economy in the next several years. Even though the remodeling of some equipment of high energy consumption and low heat efficiency and the change of some products will cost money, such money should be considered well spent. The problem now is to adopt effective policies to encourage energy conservation in practice. Provided this is successful, the present tight situation in energy resources should improve.

Finally, there is the need to reduce the "long lines" in production and construction. When our financial and material resources are by no means abundant, some undertakings should be strengthened while others should give way. We must abandon some to protect others. Within heavy industry, the processing industry is excessive, because the capacity for processing through the country is four or five times the total available amount of steel. Therefore, the scope of this industry must be reduced. Some of these enterprises can change over to the production of durable consumer goods for the market and the production of machinery and equipment for exploiting energy resources. The supply of fuel and power should be based on the principle of "choosing the best." Those enterprises producing unsaleable goods because of poor quality, consuming too much raw materials, and suffering losses for a long time, should be "closed, suspended, amalgamated or ordered to change their line of production." The over-extended capital construction front has become a long-standing problem, and one of the important causes for tight planning. Therefore, we must have the determination to shorten this front, and to stop or defer those projects under inauspicious construction conditions, not urgently needed by the state, or with no guarantee for the supply of raw materials, fuel or power even after their completion.

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1. Marx, "Theory of Surplus Value" "Collected Works of Marx and Engels" Vol 26, Part I, p 23.

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## NATIONAL ECONOMIC POLICY

### RELATIONSHIP BETWEEN STABILIZATION, ADJUSTMENT OF PRICES JUSTIFIED

Beijing JINGJI YANJIUJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 80 pp 54-59

[Article by Ji Zhengzhi [4764 2973 3112]: "Basic Stabilization and Rational Readjustment of Commodity Prices"]

[Text] The policy of price stabilization is an important component of the party's price policy which demands the readjustment of irrational prices on the basis of maintaining a basic stability of commodity prices. Our experiences over the past 30 years has proved that this basically correct policy has played a positive role in promoting socialist construction and stabilizing people's way of living. It is true that in the course of its implementation, this policy has been interpreted in absolute terms with over-emphasis on stability and disregard for readjustment. For this reason, some problems of price control and market control have made it difficult for certain irrational prices to be promptly readjusted. This is unfavorable for production and circulation. These problems must be solved, but their existence should be no cause for the negation of this policy. Such a negation may have serious consequences. While affirming this policy as basically correct, we should sum up our experiences and further enrich, perfect and correctly implement it in order to insure the smooth progress of the four modernizations.

#### I

We must maintain the basic stability of prices. This is an indispensable condition for carrying out socialist economic construction and stabilizing people's livelihood in a planned way. If prices are unstable, it will be very difficult to compare and balance various indexes of the national economy. This will be inconvenient for the formulation and implementation of the national economic plan, and may lead to chaos in economic life with adverse effects on the development of industrial and agricultural production and the normal commodity circulation. With fluctuating prices, it will be difficult to minutely examine the management level and business results of individual enterprises, or to induce the enterprises to improve their business management and economic accounting. Instability of prices may

upset financial stabilization and the consolidation of the currency value, and interfere with the rational distribution of state revenues and national income. This will intensify the contradictions among various economic interests. Unstable prices will also disturb the tranquillity of people's daily life and divert their attention from socialist economic construction. Furthermore, instability of prices provides the opportunity for unscrupulous people to engage in profiteering, graft and embezzlement which will undermine the solidity and development of socialist economy. After all, the basic stability of prices is an objective requirement in socialist economic construction, a common desire of the broad masses, and an important question as to whether the entire socialist economic construction program can proceed smoothly and whether political stability and unity can be preserved. Therefore, it must be taken seriously.

To maintain a basic stability of prices does not mean the freezing of prices. Instead, it calls for constant, necessary and rational readjustments of some irrational prices. The serious irrationality of the prices of agricultural products and raw materials, left over by the old society, must be readjusted. More important still, because of frequent changes in the outlay on the production of various commodities, in the parity between their value and the currency value, and in their supply and demand in the course of national economic development, formerly rational prices may become irrational later and, therefore, readjustment must be carried out. If there is no readjustment, there will be a disparity among commodity prices with adverse effects on the proportionate development of various departments of the national economy. From this, we can see that readjustment of prices is an objective necessity. However, this kind of readjustment can be carried out only on the basis of a basic stability of prices, and not all the irrational prices left over by the old society can be readjusted within a brief period. The prices of the main items of commodities cannot be readjusted as soon as there is any change; nor can these prices be readjusted on a large and drastic scale simply because of supply and demand. The readjustment must be carried out by stages and in a planned way, so that the rise and fall of the general level of retail prices will be kept within bounds. In the readjustment of prices, we must be very cautious in dealing with the retail prices of the basic items required in people's daily life. Of course, this does not mean that readjustment is required only for the commodities of secondary importance instead of those of prime importance. Nor does it mean that the annual general level of retail prices cannot be changed, and that each addition must be accompanied by a subtraction or every rise be accompanied by a corresponding fall. Instead, the change can be larger in some years and smaller in others. In some years, we may stress stability; in others, we have to stress readjustment. The stability of prices can only be relative and basic stability. The basic stability and the rational readjustment of prices are interdependent and their relationship is that of a dialectical unity of opposites. We must maintain a basic stability of prices before we can carry out rational readjustment, while rational readjustment on the other hand is helpful to the consolidation of the basic stability of prices. If we cannot maintain the basic stability of prices we can only let them

rise or fall spontaneously, then there is nothing about planned and rational readjustment to speak of. Failure to readjust irrational prices may for a time appear to be helpful to price stabilization; but sooner or later, these irrational prices will affect normal production and circulation, and aggravate the imbalance between supply and demand, thus causing price instability in the market. We must gradually readjust the irrational prices in such a way that most commodity prices will gradually approach their actual value before we can promote production and circulation. The material basis for stable prices must be strengthened before a genuine basic stability can be maintained. Therefore, we cannot talk only about stability and neglect readjustment, or treat the stabilization of prices as the freezing of prices. Nor can we ignore the need as well as the possibility to maintain a basic stability because of the need for price adjustment or the change in the general level of retail prices. After all, it is incorrect to stress one aspect and negate another. Way back in 1956, Comrade Chen Yun correctly pointed out in a session of the Eighth CCP National Congress: "At present, there is a phenomenon in our policy which is unfavorable to production; that is, the stabilization of retail prices is simply regarded as a necessary 'unification of prices' or 'freezing of prices.'" At the same time, he said that people should not "be alarmed when prices rise temporarily within a certain margin" or when prices are not according to quality in the selective purchases of daily necessities, because prices would fall when production was developed. He added: "We are entirely capable of maintaining price stability." To avoid one-sided interpretation, we hold that it would be more objective and comprehensive for us to interpret the policy of price stabilization as a policy of maintaining the basic stability of market prices and of rational readjustment.

Since the founding of the People's Republic, there have been two different periods when readjustment was carried out despite the relative stability of prices; and another two different periods when readjustment was very minor despite some disturbance to price stability. From 1950 to 1957 and from 1963 to 1966, production developed very rapidly, proportionate relationships among different departments of the national economy were quite satisfactory, and the market prices were relatively stable. The general index of retail prices in 1957 was higher than in 1952 by 8.6 percent, and the average progressive rate in these 5 years was 1.7 percent. As for wages, there was an average progressive raise of 7.4 percent annually in the 5 years from 1952 to 1957, and the wage raise was higher than that of commodity prices. With their standard of living raised, the people did not feel the effect of price increase. During this period, the margin of price readjustment for industrial and agricultural products was fairly wide. During the first five-year plan period, the average annual increase of procurement price for agricultural products was 4.1 percent. In 1966, the procurement price for grain was raised along with a corresponding readjustment of grain market price, so that both procurement and market prices were basically balanced. In these two periods, the relationship between basic price stabilization and rational readjustment was fairly well handled. In another two periods from 1958 to 1962 and from 1967 to 1975, production development was slow, and there was

serious imbalance among various departments of the national economy which caused quite a stir in market prices. From 1960 to 1962, the index of retail sale prices throughout the country rose by about 10 percent, being about 1 percent more than the fluctuation rate in normal years, and this was a big rise. Judging from the wage level, the actual standard of living was only slightly raised. Not much was done in the way of planned readjustment of planned readjustment of agricultural product prices, but instances of arbitrary reimbursements, price increase in disguise, passing losses to others were quite common. Similar conditions existed in the 10 years of turmoil. During these two periods, the relationship between the basic stabilization of prices and the rational readjustment was not well handled because of mistakes in our work, and particularly the interference and sabotage from Lin Biao and the "gang of four." This seriously affected production and weakened the material foundation for maintaining a basic stability of prices and rational readjustment.

After the downfall of the "gang of four," the Party Central Committee and the State Council decided in 1979 to increase the procurement prices of agricultural and sideline products by a wide margin in order to arouse the peasants' enthusiasm in production and to promote agricultural production. With the exception of grain, edible oil and cloths, the market prices of eight other main nonstaple food items were raised, and the workers were given a price-increase allowance. Thus the general price level was raised to a new high. The margin of increase in the procurement prices of agricultural sideline products and in the market prices of the eight main nonstaple food items was also quite wide, and there had never been such an increase since the founding of the People's Republic. This had also quite an impact on the general retail price level because the retail price index throughout the country rose by 5.8 percent, being 1 percent higher than in normal years. Some comrades used this as a pretext to attack our price policy, claiming that the prices should not be stabilized and that the policy to stabilize prices would do more harm than good. We feel that the raise of procurement prices for agricultural products in 1979 was an important measure in readjusting the proportionate relationship of the national economy and that it did produce good effects in arousing the enthusiasm of the peasants and in playing a positive role of promoting agricultural production besides increasing the procurement and supply of agricultural products. There was no inflation in the market and the people were not disturbed. It is true that there have been defects in the actual implementation of the policy, and we should sum up the experiences and correct the errors. The wide margin of increase had its historical causes. During the rampage of Lin Biao and the "gang of four," the national economy was brought to the brink of collapse, and the state did not have sufficient financial resources to readjust the procurement prices for these items had remained virtually unadjusted for more than 10 years. Any readjustment that had been made was negligible. Therefore, problems continued to accumulate and the prices of agricultural products became seriously irrational. Since minor readjustments could not solve the problem, it required a major readjustment to promote production. If a minor readjustment had been

carried out each year, the change of the general price level would not have been so obvious. This precisely shows that the basic stability of prices and rational readjustment are inseparable from each other. As long as the relationship between them are correctly handled, the basic stability of prices can be maintained and the general price level will not be so drastically changed, or, as an alternative, remain unchanged at all.

## II

The policy for the basic stabilization and rational readjustment of commodity prices cannot be worked out according to subjective desires, because it must have an objective basis and conform to the requirement of objective economic laws.

Some people held that failure to immediately and completely readjust the irrational prices that have been left over by history or produced by existing realities for the sake of maintaining a basic stability of commodity prices is contrary to the law of value, because according to this law, the prices cannot, and should not be stabilized.

How to understand this question? First, we feel that since socialist economy is built on the foundation of the system of public ownership of the means of production, the production and circulation of the main commodities should be planned, the role of the law of value should be restricted by the basic socialist economic laws, and we should let planned regulation play the main role without disregarding the regulative role of the market as a matter of policy. The price policy implied the policy of maintaining the basic stability of prices and carrying out rational readjustment. Such a policy should be based on not only the law of value but also other economic laws in order to meet certain political requirements. According to the policy of price stabilization, the temporary deviation of certain commodity prices from their value is consistent with not only the basic socialist economic laws, but also the law of planned and proportionate development and the law of accumulation as well as the requirement for preserving political stability and unity. Because of the law of average profit rate under conditions of capitalism, value is transformed into production price which means the deviation of commodity prices from its value. Under conditions of imperialism, the law for the quest for maximum monopoly profits also causes the deviation of monopoly prices from the value. Yet from the standpoint of the whole society, the general price of commodities still agrees with the general value, according to the law of value. Since the deviation of price from value can be permitted under the conditions of capitalist commodity production, why can't the same deviation be permitted under conditions of socialism? And why should price and value be always identical? The deviation of price from value may lead to a redistribution of economic benefits among various parties, and under the conditions of socialism, the parties concerned are the state, the collectives and the

individuals. Of course, we have to consider all three parties instead of only one, and that is why it is improper for the price to deviate from the value by a wide margin and for a long time.

Secondly, in order to stabilize commodity prices after permitting certain prices to deviate from their value in a planned way, the state offers the necessary financial or commercial subsidies to the enterprises that have suffered losses and made less profits on this account. Also, the transfer of profits between industry and commerce, the adjustment of the profit index, tax reduction, lowering the interest rates, and similar measures are adopted to protect the necessary economic benefits of the enterprises concerned precisely because of the requirements of the law of value. The choice between price adjustment or other financial levers to maintain the basic price stability has to depend on the actual political and economic requirements and the merits of each method in serving the entire economic development and in correctly handling the relationships of economic interests among various quarters. We cannot stress only the correspondence of price to value by ignoring the role of financial levers or by a wholesale rejection of the financial subsidy system as being entirely worthless. At present, many countries in the world, including developed capitalist countries, are granting certain government subsidies to back up the market prices of people's daily necessities and farm implements as well as the procurement prices for certain agricultural products, to serve certain political or economic purpose. If even capitalist countries can adopt this economic policy, why can't socialist countries do the same? Our government subsidies had defects in the past, because the amounts involved was too large and the time was too long. Furthermore, the methods used were too rigid. We should have set subsidy quotas, adopted the system of sharing what had been saved from losses, and offered certain material benefits to arouse the enthusiasm of the enterprises in reducing their losses; but we failed to take those measures. After reforming the methods of management, therefore, government subsidy as a temporary expedient should be still useful.

Thirdly, stabilization of commodity prices does not exclude rational readjustment at all, it only calls for planned and gradual readjustments at different stages. This does not mean disregard for the law of value; on the other hand, such readjustment is precisely based on the law of value, although, instead of being carried out immediately after the change of value, the readjustment has to wait until the irrational prices have already affected the price parity and obstructed production and circulation. Since commodity value changes by stages, it is objectively possible for readjustments to be carried out step by step. Another reason for this way of readjustment is that labor productivity does not change abruptly, and that for different products, the changes of labor productivity are not the same. Even though there may be a big change in the labor productivity in certain commodities, and in the value of these commodities, we can still plan for a minor readjustment each year so as to keep the change within limit, since ours is planned economy. Through gradual readjustments, the irrational

prices, left over from history or produced by existing realities, can gradually become rational. In dealing with the "scissor difference" between the prices of industrial and agricultural products, for example, we have adopted the policy of gradually raising the procurement prices of agricultural products and stabilizing the market prices of industrial products as a means of reducing the difference. From 1953 to 1957, the average procurement price of agricultural products was raised by 21 percent, and by 1958, the "scissor difference" was reduced to the average level of the period from 1930 to 1936, or before the War of Resistance against Japanese Aggression. Later on, for various reasons, the scissor difference was increased. However, if we will compare 1979 with 1950, we can see that because of the rise of procurement prices for agricultural products by 165.5 percent--compared with an only 9.9 percent increase in the market price of industrial products in the countryside--a peasant with the same amount of agricultural products in 1979 had increased the amount of industrial products exchanged by 141.6 percent. Peasants have obtained great economic benefits from the way of pricing. In 1979, large increases of procurement prices for agricultural products further reduced the "scissor difference." Therefore, provided the prices are constantly readjusted, the government's burden in subsidizing for the stabilization of prices will gradually diminish instead of continuing to grow. The increase of market prices for eight nonstaple food items in 1979, for example, has reduced government subsidy for the commercial departments engaged in these nonstaple food items.

From this, we can see that the stabilization and rational readjustment of commodity prices by no means violate the law of value. Those who think that stabilization of prices does not conform with the law of value and that according to the law of value, prices should rise, are actually thinking of price stabilization in absolute terms instead of recognizing that such stabilization aims at only basic or relative stability. By separating the basic stabilization and the rational readjustment of prices from each other by affirming one and negating the other, these people are interpreting the policy of price stabilization one-sidedly.

### III

The question of pricing is now attracting widespread attention and people are generally concerned about the possibility of price stabilization and the trend of the general price level, because they long for tranquillity and stability. Hereafter, price stabilization is not only necessary but also feasible, mainly because ours is a socialist country holding the economic lifeline in its own hands and in possession of great economic power to maintain the basic stability of prices. The rise of the general price level cannot be vertical; instead, there is a series of peaks and troughs tending to rise a little each year. To illustrate this point, it is necessary to conduct a concrete analysis to find out what are the factors in the rise of prices, what are the factors in the fall of prices, and what are the favorable conditions for price stabilization so that effective measures can be taken to maintain the basic stability of prices.

According to the present situation, the main latent factors in the rise of the general price level and causing price instability are as follows:

(1) To further reduce the "scissor difference" between industrial and agricultural products, a continued rise of the procurement prices of agricultural products is necessary. It is also necessary to further increase the wholesale prices because wholesale prices of raw materials and fuel have for a long time been unduly low while the production costs of raw and semi-finished materials and fuel have continued to rise (because of the continued decline of high grade mineral reserves and the deteriorating conditions of mineral exploitation). The standard of living of the workers too has to be raised through the increase of wages. Therefore, along with the increase of the market prices of agricultural products and the increase of production costs for industrial products--particularly those light and textile industrial products using agricultural raw materials and those labor-intensive products--the wholesale prices have to be correspondingly raised. The scale of charges by the maintenance service trade has also been raised. All these factors can affect the basic stability of market prices.

(2) The interference and sabotage by Lin Biao and the "gang of four" caused a serious imbalance in our national economy and upset the balances between the supply of commodities in circulation. For a time, the supply of commodities was insufficient while the issue of currency was excessive. This produced an upward trend of the prices of consumer goods, and is another latent factor of price instability.

(3) In restructuring the system of economic management by mainly depending on planned regulation, and at the same time attaching due importance to the role of market regulation, the prices of sideline, indigenous and special products of agriculture and some minor industrial items have fluctuated as a result of negotiated purchases and sales. Within a certain period, the prices of certain minor commodities can rise for a while because of insufficient supply to meet the demand.

(4) To improve business management through strict economic accounting and by arousing the workers' enthusiasm, we have linked the business results of the enterprises with the material benefits of the workers. Following the introduction of the system of profit-sharing, some enterprises can no one-sidedly stress their own economic benefits under the pretext of following the law of value. Instead of improving their economic management, these enterprises may resort to the tactic of pricing and arbitrarily increase their prices, openly or in a disguised form, or try to pass their losses on to others in order to benefit themselves, or to increase the bonus for workers. All this can affect the basic stability of prices.

In addition, price fluctuations in the world market can also affect the price stability in the domestic market to a certain extent.

Among the above factors, only the first one may have long-lasting effects, while the effects of the rest can only be temporary. These are only problems in the methods of our work and can be gradually solved.

The main factor in the lowering of the general price level is the possible reduction of the consumption of raw and semi-finished materials and fuel, and the gradual rise of labor productivity. The reduction of production

costs can lead to a reduction of prices. It is also possible that the increase of prices for raw and semi-finished materials and fuel will not be accompanied by an increase of their wholesale prices. At present, the waste of raw and semi-finished materials and fuel is rather serious. For example, our energy resource utilization rate is only 30 percent; the steel utilization rate by the machinery trade is only 50-60 percent, and the timber utilization rate is only about 50 percent. The consumption quotas among many enterprises are far above the international level and not even up to our previous best level. Therefore, there are great potentials to be tapped. Following the rise of labor productivity, commodity value should be correspondingly reduced, and this makes the reduction of prices objectively possible. The way for us to reduce the scissor difference between industrial and agricultural products is to accomplish agricultural modernization, to develop production with measures suitable to local conditions, to expand the diversified economy and to raise agricultural labor productivity. The raise of procurement prices for agricultural products and the reduction of market prices of industrial products used in agriculture are also an important measure for reducing the "scissor difference." After the increase of prices for raw and semi-finished materials and for fuel, industrial enterprises can also keep their production costs from rising, or even lower the production costs through tapping their potentials, improving their business management, increasing their output, improving the products' quality and reducing the consumption of raw materials and fuel. Thus they can increase their profits without raising the wholesale prices. This has been accomplished by many enterprises at present, and the Tianjin Bicycle Lock Factory is a typical example. This factory had to increase its expenditures by 88,000 yuan because of the increase of the prices of raw and semi-finished materials. However, it could manage to lower its production costs by 423,000 yuan which, besides offsetting the increased outlay brought about by the increased prices of raw and semi-finished materials, resulted in an extra profit of 336,000 yuan to be handed over to the state.

The main conditions favorable for the basic stabilization of our prices are as follows: (1) Because of the implementation of the eight-character policy of readjustment, restructuring consolidation and improvement, and the continued implementation of the policies on rural economy, the proportionate relationships among various departments of the national economy have become more coordinated; the enthusiasm of the broad masses of working people in production has been further aroused; industrial and agricultural production will be further developed, more commodities will be supplied in the market; the material foundation of price stabilization will be further strengthened; and there will be balances between government revenues and expenses, between the amounts of currency and commodities in circulation, and between the social purchasing power and the availability of commodities in the market. The basic stability of commodity prices can be maintained, and specific examples of this can be found in history. Because of the implementation of the eight-character policy of "readjustment, consolidation, filling-in and raising of standards" and the upholding of the three balances after 1962, commodity prices tended to decrease, and the margin of decrease was particularly

large for the sideline, indigenous and special products of agriculture. From 1963 to 1965, the retail price index throughout the country was reduced by 4.5 percent. The economic conditions now are better than they were in 1963, and our material foundation is stronger. Therefore, we are entirely capable of maintaining the basic stability of commodity prices. (2) We can plan the periodical readjustment of procurement prices of agricultural products and the wholesale prices of raw and semi-finished materials, and fuel, and see to it that the margin of readjustment is not too large. At the same time, we can lower in a planned way the prices of some consumer goods which are being highly priced and yielding high profits, so that under general conditions, the change of the general retail price index will be limited within 1 percent. It must be noted that after the large increase of procurement prices of agricultural products in 1963, there will be no big change for some time. The readjustment of prices of the eight main nonstaple food items has solved the long-standing problem of higher procurement than marketing prices, and the prices should remain stable for some time. (3) Negotiated purchases and sales of commodities are limited. When the supply is insufficient to meet the demand, the prices of certain commodities may rise. But this type of rise can only be temporary, because as soon as production develops, they will be lowered again. Furthermore, we have to strengthen the management and avoid impulsive actions which may lead to severe fluctuations. At present, the prices in the trade fairs are stable and some of them tend to become even lower. Therefore, we should not be alarmed by the temporary increase of certain prices resulting from negotiated purchases and sales. We must have confidence in the stability and even the reduction of prices when production is developed. Furthermore, the expansion of decision-making power for the enterprises will lead to "competitions" or "emulations" which may induce the enterprises concerned to boost their sales by reducing their profit margin. Under such conditions, instead of rising, the prices of many products will be stable or even reduced. (4) The improvement of business management, the reduction of consumption of raw materials and fuel, and the raise of labor productivity cannot all be accomplished overnight, and they must take their time. Before, then, the state can use the financial and other levers at its disposal to confine the chain reaction, caused by the increase of raw material and fuel prices, within a fairly small margin for a certain period, instead of allowing it to disturb the present market prices. This will help maintain the basic stability of prices. The procurement price of cotton, for instance, was raised in the past 3 years. To avoid disturbing the market prices and to maintain the normal operation of the enterprises, the state adopted the system of subsidizing the supply and marketing cooperatives. Since the prices of supplies for the factories remained unchanged, their economic benefits were not affected. When the wholesale prices for coal and iron were increased, the wholesale prices of iron required for the production of light industrial goods for the market remained unchanged, and the losses incurred by the iron-smelting plants as a result were charged to the implementation of government policies. (5) The majority of comrades understand and are in agreement on the need for maintaining the basic stability of commodity prices. Instead of raising wages, price and consumption, they advocate the necessary readjustment of

certain irrational prices on the basis of a basic stability of commodity prices. This is the ideological support for price stabilization. At present, the party and the government at all levels are more concerned with the question of pricing, and have strengthened their leadership accordingly. Pricing is now included in their meeting agenda. The broad masses are concerned with this matter too and have willingly played the supervisory role. The examination of prices has gradually become regularized and systematic. Furthermore, the departments in charge of pricing have been consolidated and improved, and disciplines concerning pricing are now stricter. All these factors will insure the basic stability of prices.

We must have due confidence in our ability to main a basic stability of commodity prices. Comrade Chen Yun said in a session of the Eighth CCP National Congress in 1956: "Since we were able to stabilize the prices before 1954, is it reasonable that we cannot do the same now when capitalist industry and commerce are all under joint public and private ownership, when handicraft producers and peddlers have joined the cooperatives and when the socialist economic power has been greatly increased? I am sure it can be done. We are entirely capable of maintaining price stability." Our socialist economic power now is much greater than what it was in 1954. Therefore, we are even more confident of our ability to maintain a basic price stability. In the course of accomplishing the four modernizations, we should, and are able to, discover a new way for the basic stabilization and rational readjustment of commodity prices in the light of realities in China and more closely follow the law of value in order to promote agricultural development and improve the people's living conditions.

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NATIONAL ECONOMIC POLICY

ECONOMIC JOURNAL DISCUSSES INTERNAL PRICE CALCULATION SYSTEM

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[Article by Finance Department of Shanghai Cotton Textile Industrial Company: "To Appraise the Effects of Enterprise Management According to Internal Price Calculation System"--passages within slantlines denote boldface type]

[Text] Editor's note: Since the implementation of the profit retention system, there have been enormous differences in the profit margins between various enterprises caused by unreasonable prices, thus some people are happy while others are not. The profit index actually cannot entirely reflect the level of management and operation of the enterprise. Therefore, under the conditions where an overall adjustment in the price structure cannot be carried out but the stability of prices must be maintained, it is worth trying to carry out internal price calculation. This is of great significance in correctly examining and appraising the fruits of enterprise management and correctly handling the interests of the state, enterprises and staff and workers, and consolidating and developing the fruits of system reforms. Moreover, the internal price calculation experiment also provides a basis for rational adjustment of market prices in the future. An article by the finance department of the Shanghai Cotton Textile Industrial Company is published here for study and reference by the relevant sectors.

One of the important contents of the reform of the economic management system is that we should adopt economic methods and use profits to appraise the economic achievements of enterprises. Withdrawal of enterprise funds based on a fixed proportion of profits (profit retention) can better integrate the economic interests of the state, enterprise and individuals. It is therefore very important to use profits as the index for appraising the economic results of enterprises. However, the

price structure in our country at present does not conform to this requirement. For a relatively long time, price has been divorced from value. The conditions of production have changed, the prices of raw materials have been adjusted, but there has been no corresponding readjustment in commodity prices, thus there are great differences in the profit margins in various industries and products, and some people are happy while others are not. Below is a comparison of the profitability of two cotton textile enterprises with a similar scale of operation for the year 1978:

In Shanghai No 17 Cotton Textile Plant which mainly produces cloth from pure cotton at comparatively low prices, there were 2,962 employees in 1978, 40,800 spindles and 1,004 looms and the profit submitted was 4.44 million yuan.

In Shanghai No 28 Cotton Textile Plant which mainly produces polyester and cotton cloth at relatively high prices, there were 3,316 employees in 1978, 43,200 spindles and 1,088 looms, and the profit submitted was 27.97 million yuan.

There is not much difference between the staff and installations in these two plants. However, there is a difference of five times in the profits because of the difference in prices of the products. Under these conditions, it is difficult for the profits in an enterprise to realistically reflect the effectiveness of management and operation and economic results. However, an overall adjustment of prices would affect the livelihood of the people. This is a complicated problem which cannot be solved instantly. Consequently, an internal price calculation system to eliminate the excessive difference between price and value and to make the profit reflect the economic results of the production and management activities of the enterprises as realistically as possible, is a workable method for correctly appraising the management conditions of enterprises before an overall adjustment of prices. The implementation of this method will help to stimulate initiative in enterprise operation and management, tap production reserves and accelerate the pace of the "four modernizations."

Recently, the test points for enterprise autonomy were increased and an important content is to delete profit retention according to profits. Two main problems have been encountered in the trial process. The first one is that the enterprises seek high profits and rewards. They work whenever there are high profits and do not work when there are no profits, thus there is an accumulation of products with high profits but no ready sale and there is a drain on supplies of products with low profits but a ready sale. Second, fine quality does not necessarily mean a high price. In order to satisfy export requirements and the needs of consumers, enterprises must vigorously improve the quality of their products and increase the variety of goods. In this way, enterprises have to expend more effort and increase expenditure. However, since the prices cannot be changed, the profits are decreased. Therefore,

enterprises may neglect to improve quality because of profit considerations. These conditions illustrate that the need for the implementation of an internal price calculation system is urgent and realistic.

How is the internal price calculation system to be drawn up? Internally calculated prices are prices especially drawn up for evaluating the effects of enterprise management. These prices are fixed according to the requirements of the laws of value, the standard production costs of the industry and standard profits which conform to the requirements of the average profit rate. This discards the unreasonable elements in the present prices and can be taken as a uniform measuring stick to assess the effectiveness of enterprise operation and management and compare the economic results of the enterprises and can also be taken as the basis for calculating the profit retention for the various enterprises. Internal price calculation is especially used for the settlement of accounts within the industry itself. Tax can therefore be excluded and its structure can be expressed in the following formula:

The internally calculated unit price of the product is equal to the standard unit production cost plus the standard unit profit of the product.

The standard unit production cost of the product can be generally divided into variable production cost and fixed production cost. Variable production cost varies according to the quantity of production. In the textile industry, it refers to raw materials, packing materials, sizing materials, motive force used in the technological process, processing cost other than that of the products and so on. Fixed production cost refers to costs and expenditure largely unrelated to the quantity of output and that is relatively stable, such as mechanical materials; fuel consumption, electricity charges, wages, supplementary charges, and so on. The standard production cost is based on the average level of production costs which the average enterprise can attain in the industry. In this way, enterprises with production costs below the average level in the industry will receive encouragement and enterprises exceeding the level will be penalized. The variable production cost takes the average amount of consumption as the basis. The fixed production cost selects the actual amount and the standard output within a certain period (a year or a quarter) in the industry and carries out calculation according to the uniform method of calculating production costs to arrive at the unit production cost for each item and each product variety.

There have been various means of fixing the standard unit profits for products over the years. There are three main types: average profit rate for production costs, average profit rate for wages and average capital profit rate.

According to the average profit rate for production costs, the price is equal to the standard production cost multiplied by 1 plus the profit rate of the production cost. Value is created by live labor, but the means of production are also an indispensable condition for production.

The production cost is the sum of material labor as well as consumption of live labor. The prices are fixed according to the profit rate of production costs and have taken an all-round consideration of the role of live labor and of the means of production. At the same time, production costs and profits are directly linked and have embodied the requirement that the socialist enterprises take the reduction of production costs as the basis for increasing profits. In the present work of price calculation, including textile products, the prices of many products are based on the profit rate of production costs. However, the portion of material labor in production costs is actually only the transfer of the value of the consumed means of production. It cannot create value by itself and the amount of production costs cannot accurately reflect the conditions of the means of production possessed by the enterprises or their contributions to the state. Take a large screw and a small screw for example; more material is needed for the large screw and the production costs are high. Less material is needed for the small screw and the production costs are low. However, it does not require less skill and manhours to manufacture the small screw. If the production cost is used to ascertain profits and rewards, enterprises will be induced to take up big pieces of work and not small pieces. In cotton textile enterprises, the raw materials for polyester cost 11 yuan per kilogram and the raw materials for pure cotton yarn cost 3 yuan per kilogram. The production cost for spinning 1 ton of 21S blended yarn of polyester and cotton (65 percent polyester and 35 percent cotton) is 8,727 yuan and this includes the wages of 401 yuan, while the production cost of 1 ton of 21S pure cotton yarn is 3,344 yuan, including wages of 396 yuan. The wages for the two are basically the same, and the difference in the cost of raw materials alone accounts for a difference of more than 1.6 times in the production costs. If we calculate production costs according to a uniform profit rate, the profit of the blended yarn of polyester and cotton will have to be 1.6 times the profit of pure cotton yarn. This proportional relation is obviously cannot correctly reflect the contribution to the state made by enterprises manufacturing different products.

According to the average profit rate on wages, the price is equal to the standard production costs plus the costs of wages multiplied by the profit rate of wages. The profit rate of wages is taken to ascertain the principle that the profits conform to the value created by labor. The profit rate of wages discards the influence exerted on profits by the amount of material labor consumed and embodies the role of live labor, but neglects the role of the means of production and in particular, the role of technical installations. In this way, the profits increase with an increasing proportion of manual operation which does not encourage progress in production technology.

The profit rate on the average capital takes the amount of investment as the basis for obtaining profits and directly links up the amount of capital used with profits. Under the conditions where materials, technological equipment is playing a greater and greater role in the development

of social production, the calculation of price in accordance with the profit rate on capital encourages the adoption of new technology and increases the productivity of labor. However, it also suffers from the drawback that it neglects the role of economizing with live labor and does not stimulate the initiative of the workers.

It can be seen from the above analysis that all three types of profit rates possess attributes and shortcomings to varying degree. If any one profit rate is taken as the basis for calculation, it is difficult to correctly reflect the objective realities and contradictions encountered in the actual work cannot be resolved. We think that it is more appropriate to combine these three methods in such a way as to overcome their weaknesses and acquire their strong points.

Seen from our textile industry, according to the principle of returns on capital used, the state should impose a charge on the use of working capital and fixed assets and the charges should be calculated according to the profit rate fixed by the state. In addition, the state stipulates that the enterprises have capital for the development of production, welfare funds for staff and workers and reward funds for staff. The ratio is 4:3:3. Then according to the principle of the unity of rights and responsibilities, the source is determined by the demand and the ratio between the production development funds needed for renovation and improvement of fixed assets and the welfare funds and reward funds needed for developing labor efficiency and improving the workers' livelihood should be 4:6. As far as an industry is concerned, we think that this can basically be taken as the basis for ascertaining the profit rate on fixed assets and profit rate on wages in the system of internal price calculation. Profits are of a realistic nature. Therefore, the total profits of enterprises based on calculated prices should in principle conform to the total profits of the industry calculated according to current prices. What is changed is only the unreasonable profit rate between enterprises and between the products. The use of internal price calculation is in fact the reallocation of profits within industry, based on profit calculation according to products and enterprises. Take a cotton textile company for example:

/Allocation according to capital:/ The total sum of working capital per annum is 220 million yuan. The annual profit is 7.2 percent and the utilization charge per annum is 16 million yuan.

The total amount of the fixed assets is 700 million yuan with a tax rate of 12 percent per annum and based on an average utilization charge, the amount charged for using the fixed assets is 42 million yuan. The total of the above amounts to 58 million yuan.

The total amount of profits for the whole company is 530 million yuan per year. After the deducting the charge for the allocation of the above capital, we are left with 472 million yuan. According to the analysis

/ the ratio of 6:6 concerning utilization of this capital, the profit on fixed assets is 180 million yuan and the profit on the labor force is 283 million yuan. In sum:

Profit on the working capital	16 million yuan	3 percent
Profit on fixed assets	231 million yuan	43.6 percent
Profit on wage Fund	283 million yuan	53.4 percent
Total	530 million yuan	100 percent

In the allocation of profits based on the proportion of these three parts, the remaining part after deduction of the stipulated amount to the state can conform to the requirements of the various expenses of the cotton textile industry and the various enterprises so that a basic balance is maintained in the income. This then creates favorable conditions for bringing into play the role of independent management in the enterprises in shouldering responsibilities for their own losses and gains and stimulating the initiative of all staff and workers at every level in the organizations.

How are the profits of an industry to be computed in terms of profits attributable to specific products? This can be obtained from the total production costs of the various items throughout the industry.

/The portion of fixed assets:/ The profit allotted is 231 million yuan. The total sum of depreciation on the fixed assets is 31.1 million yuan a year. Then the profit on each yuan of depreciation charge in the production costs should be 7.42 yuan.

/The labor force portion:/ The profit allotted is 283 million yuan. The total wages for the whole year are 132 million yuan. The profit on each yuan of wages in production costs should be 2.14 yuan.

/Portion of working capital:/ The profit allotted is 16 million yuan. The total amount of consumption of raw materials in the working capital for the whole year is 0.143 million yuan. Then the profit on each yuan of raw materials in the production costs should be 0.011 yuan. Since the production period in the spinning mill is different from that of the spinning and weaving mill, according to the difference in the turnover period, the profit on each yuan of raw materials for cotton in the production costs in the joint spinning and weaving enterprise should be 0.014 yuan.

Take for example the standard profit for every 100 meters of 38"4043 x 13372 poplin. If the standard depreciation cost is 1 yuan, then the profit on the fixed assets is 7.42 x 1 yuan which is equal to 7.42 yuan per 100 meters.

If the standard cost of raw materials is 32 yuan then the profit on the working capital is 0.014 x 32 yuan which is equal to 0.70 yuan per 100 meters (Note: The proportion of raw materials is not great, so we are brief here.)

If the standard wage rate is 1.50, the profit on the labor force is 1.14 x 5 yuan which is equal to 6.70 yuan per 100 meters.

The standard profit on 100 meters of that product is equal to the standard profit on the fixed assets plus the standard profit on the working capital plus the standard profit on the labor force which is equal to 7.42 yuan plus 0.70 yuan plus 6.70 yuan equals 14.82 yuan.

The internal calculated price of that product equals 97 yuan plus 16.08 yuan equals 113.08 yuan.

The use of the internally calculated price greatly reduces the differences in the profit rate between enterprises, as it basically regulates the fixed assets, working capital and labor force, allowing them to play their proper role, and compensates for other expenses. Thus changes in product variety will not bring about a great increase or decrease in the profits of enterprises which thus reduces and eliminates the obstacles to the development of product diversification.

When the internally calculated price is divorced from the market price, the price lever has more flexibility and it is possible to attain superior quality at a competitive price with a profit, consciously make use of the price lever in accordance with the law of value and improve the quality of products and promote the development of products in urgent demand and short supply so as to regulate the relationship between supply and demand on the market. We can raise the price of good quality products and varieties for which there is a ready market and reduce the price of unmarketable goods of inferior quality so as to combine a balanced plan with a regulated market and unify the economic interests, results and responsibilities of the enterprises so as to mobilize the enterprises to further develop production. Generally speaking, it is necessary to encourage products of famous brands and award-winning products and increase the originally calculated price by 1 to 3 percent. On the one hand, this can compensate for the extra manpower and material resources required to improve the quality and on the other hand, this can promote the beneficial use of good materials and the use of materials according to demand and overcome the present phenomenon of waste. The increase in price by 1 to 3 percent of products in short supply and urgent demand can on the one hand compensate for the losses inflicted on enterprises by alterations and on the other hand can meet subjective demands. We can reduce the price of unmarketable products by 1 to 3 percent so as to restrain them from going into the situation to subsidize, estimate accumulation and accelerate the turnover of capital.

The internally calculated price is more reasonable and very suitable as a basis for competition. It can be used for examining and appraising the enterprises and promoting the enterprises to develop evaluation drives, the factory, increase production and practice economy. We should set the standard profit and planned profit (including incomparable profits)

and losses outside the planned operations) at regular intervals as the basis for appraising the economic results of the management and operation of the enterprise. The formulas for its calculation are:

The standard total calculated profit is equal to the sum of the internally calculated price of the product minus the standard unit cost multiplied by the standard output.

The standard output is equal to the sum of the installation multiplied by the working hours multiplied by the standard turnover rate multiplied by the standard output.

The total planned calculated profit is equal to the sum of the internally calculated price of the product minus the planned unit cost multiplied by the planned output.

Then the total profit is actually calculated monthly and quarterly, the formula being:

The actual, calculated total profit is equal to the sum of the internally calculated price of the product multiplied by the adjustment rate of the quality, variety, and price minus the actual unit cost multiplied by the actual output.

This can evaluate whether the plans are fulfilled and can determine the extent of the increase or decrease over the standard profit so as to appraise the effects in the management of the enterprise. The formula for this is:

The rate of increase or decrease over the calculated profit of the enterprise is equal to the actual total calculated profit of the enterprise minus the standard total calculated profit of the enterprise divided by the standard total calculated profit of the enterprise multiplied by 100 percent.

The more the calculated profit of the enterprise is exceeded, the better are the results of enterprise management. If it falls below the standard amount, it reflects that the results of operation are poor. This comparison is very simple and clear and can be taken as an important measure for appraising whether an enterprise is good or bad.

The use of internally calculated prices helps the implementation of profit retention and closely links up the interests of the state, enterprise and individuals. With profit retention, the enterprise can take a portion of the retained sum for rewarding the workers. According to the method of the working mill, under the prerequisite of fulfilling the plans, a basic profit retention based on the basic retention rate can be taken in accordance with a standard profit to meet the basic needs of the expenses of the enterprise, such as the funds required for developing

production and the normal expenditure on staff welfare and rewards. In addition, super profit retention based on a super retention rate can be taken in accordance with super profits. The super retention rate should exceed the basic retention rate (normally double). Super retention is mainly used to encourage staff to make contributions to the enterprise and at the same time properly increase the funds for developing production. According to the 4:3:3 ratio of funds for developing production, welfare funds and reward funds, the funds for developing production in the basic retention should exceed those used for reward funds because it is relatively easy to fulfill the plans. In super retention, the funds for developing production can be less than those used for rewards because it is more difficult to exceed the stipulation and the workers need to put in more effort. Since profit is closely linked to utilization, the various enterprises, in implementing profit retention according to an internally calculated profit, can meet the requirements of the allocation of retention sums. This can solve the problems of unreasonable allocation and discontent among the enterprises and can conform to the principle of distribution to each according to his work.

The practice of the cotton mill and the development of the use of internally calculated prices in particular obviously promotes production industry. A warm emulation drive can be developed by the various enterprises and gradually, instead of the work being grasped by the upper levels, the staff and workers will grasp the work consciously and comprehensively and this will further realize the initiative of the staff and workers of the enterprise. In the past, the industries, internal organizations of enterprises and departments managed and grasped things themselves and without properly considering economic effects. Often technology and economy could not be integrated and there was much wastage. Now greater, faster, better and more economical results have been integrated. In addition, profit retention has been implemented, to the direct contribution between technology and economy. As long as everybody pays attention to the economic results, this will further promote economy and reduce waste.

Since the implementation of standard costs and standard profits in 1979, under the prerequisite of consolidating and improving quality, the profits from industry have been increased from one quarter to the next. The third quarter was formerly an unfavorable period with low production in the cotton industry and high production costs. However, we have shattered all normal standards. The profit has exceeded that of the two preceding quarters. There was no slackening in the fourth quarter and the third quarter was easily surpassed. This year, we continued to implement profit retention according to internally calculated prices. In the first quarter, we again shattered normal standards and surpassed the fourth quarter of the previous year, attaining our best level ever. In order to prove the rationality of internally calculated prices, the cotton company compares and analyzes the scale of operation, product variety and production costs in its affiliated enterprises and the profit rate is basically

balanced. Based on an analysis of the profits according to the facilities in the units, although the product varieties in the various plants are different, the profits are similar. Analyzed according to the workers' bonuses, despite the differences in the scale of operation of enterprises and their product varieties, the levels of bonuses are similar. For example, there was formerly a difference of 5 times in the profits of No 11 plant and No 28 plant. But now, there is only a difference of 10 percent. This already conforms more to objective reality. Analyzed according to the production costs, the standard production costs and the actual production costs of the various items in the various plants are also proportional and this shows that there is a certain rationality in the internally calculated prices of the cotton company. Since objective reasons such as unreasonable prices have been dispensed with, the differences in the subjective efforts of the enterprises and some problems caused by the neglect of economic results in the past have been exposed. This is very favorable toward promoting enterprise production and improving management and operation. For example, the output level, the amount of production costs and the number of employees have been revealed through the analysis of profits. The employment of people in the past tended to be a bit excessive. Now, we are not willing to employ an excessive number of people and energetically raise the low output level. In the reform of looms for wide cloth, in the past, the planning was done by the company and the instructions carried out by the enterprises, but no one was previously held responsible for the economic results. Thus for a long time the looms for wide cloth have been weaving products of a narrow width. It was at first thought that reform would bring about results. The settlement of accounts now shows that the output and the profits have both decreased and the enterprise has had to raise the question as to who should shoulder the economic responsibilities and request the assignment of the production tasks of wide cloth at the time of making arrangements for wide cloth looms, so as to avoid a reduction in the profits of enterprises. This has thus prompted the consideration for economic results and comprehensive and balanced work in the course of technological reforms.

The practice of the cotton mill above has proved at a preliminary stage that the use of an internally calculated price system is a workable method under the present conditions where the commodity prices cannot be easily adjusted and it can also provide a reference for price reform work in the future.

CSO: 4006

## NATIONAL ECONOMIC POLICY

### ACTIVATING INTERNAL COMMODITY TRADE CIRCULATION

1973155 Beijing JINGJI GUANLI in Chinese No. 7, 15 Jul 80 pp 11-13

[Article by Li Huang (李煌) (1932), deputy leader of the Sichuan Provincial Commodity Office: "Some Views on the Activation of Goods Circulation."]

Dear Comrades, There are quite a number of problems in the realm of goods circulation. It is not uncommon to discover that the supply of many goods is so short that the needs of society cannot be satisfied while on the other hand, there is such a tremendous overstock of other goods that the enterprises concerned simply cannot market them. Why is this so? I think there are a multitude of reasons, including miscalculations in overall balance and incompetent planning. Certain enterprises might care too much for fulfilling the output value, output and profit plans laid down by the responsible departments so that they simply neglected the marketability of their goods. Or, it may be due to certain features in the goods management system that are not in conformity with objective economic laws.

Dear Comrades, I would like to put forward some preliminary viewpoints on how to activate goods circulation realistically before fundamental reform of the national resource management system can be made.

1. Excessive and overrigid control of goods distribution within the plan should be rectified. The scope for centralized distribution of goods should be reduced. For the majority of goods, the method of supply by planned distribution should be replaced by distribution through goods enterprises. For instance, there were 350 items of common goods distributed by the Sichuan Provincial Planning Commission and the Provincial Materials Bureaus. This year, with the exception of 50 goods items that are to be centrally distributed, the rest of the 300 items are to be distributed by goods enterprises instead. The practice of giving instructional distribution quotas from above has been abolished. In this way, the distribution and supply of goods can be more realistic. Such a measure can also provide greater flexibility for improving the goods supply and management.

Ever since the economic crisis occurred, three methods have been adopted with regard to foreign trade management. The first method is to coordinate centralized distribution of a few important goods vital to the development of the national economy and on par with a quick system. These goods are subject to central planning at the provincial level so as to ensure the overall balance of the provincial sections of the national economy. The second method is to distribute the majority of goods, previously distributed centrally, through goods enterprises. Although under a number of goods are thus released, the present supply of such goods is accurate to insure a satisfactory level of supply. Yet since the adoption of such a method, the production plans of enterprises have primarily been based on social needs as reflected in the economic departments. The third method is to allow certain goods to be marketed by the production enterprises themselves. By so doing such goods can be distributed or sold by goods enterprises. These goods are primarily third category industrial and mineral products produced locally. They may also include products of trial production, produced as a result of increased production after fulfillment of the production plan and supply contract prescribed by the state.

The implementation of these methods has replaced the previously unitary system of planning and other more or less flexible forms of distribution. This provides more latitude to production and resource management enterprises with regard to the procurement, marketing of goods and organization of business. This plays a positive role in the betteration of goods circulation.

Under the guidance of Commissar Khrushchev, after the requiring effects of the market were discovered, the government was anxious of bringing the regulating effects of the market into play. Some enterprises are very enthusiastic about marketing their own goods. The marketing of goods by the enterprises themselves has positive effects on promoting the efforts of the enterprises for the marketability of their goods. It also has positive effects on the improvement of goods quality, increase of salesmen, reduction of marketing costs, the increase of supply in certain enterprises, the development of production and the utilization of the market. The marketing of goods by the enterprises is a form of market regulation. But as to how this form of market regulation can best perform its supplementary role under the guidance of planned planning, it still has to make generalization based on continuous practice. At present, many enterprises are improving their production tasks through advertisement, publishing, sending out agents to insure the sale of their goods. However, it is our view this is a permanent solution. Not only is it a waste of human, material and financial resources, it also disrupts the economy and socialist's attitude toward planning. In this respect, the function of enterprises is the bridge and link between production and consumption. It should be in accordance with national planning and socialist needs, tasks and line of the advantages of providing organized and close and sufficient information to enterprises to carry out market research.

The present structure has been used in the existing structure and network and just consider the distribution and sale of goods of the production enterprises. For instance, in our province, there are over 100 goods enterprises at the county level and over 600 supply points and agencies. This basically constitutes a sales and supply network. Those points within the network have extensive connections and have years of business experience behind them. Through the means of direct contact and sale, these points within the network are fully diffused and scattered and together co-operate and blend them into an entity. This is far easier and more economical than allowing production enterprises to sell directly thus putting them directly in contact with thousands of households. Furthermore, this also releases the enterprises from the burden of selling their goods and causes them to concentrate on promoting production. This will help to increase their competitive power through improved quality, increased diversification and reduction of production costs so that market needs can be satisfied.

Furthermore, various kinds of goods exchange, credit and service departments can be established and improved to provide permanent trading, exhibition and sales facilities to enterprises. In certain large and medium cities, this kind of exchange should be expanded into trading centers, industrial production information centers and service centers which help to bring the production of enterprises closer to consumer needs. For instance, in the city of Qianmu, the Sichuan Provincial Production Information Service Company has already established a service department. This service department helps production enterprises to exhibit, sell and distribute their products while at the same time helps enterprises and consumers to purchase goods. Such an experiment has produced good results. The advantages are as follows: First, it provides facilities for regular conferences of the production and consumption sides. Second, it can easily accomplish and promote mutual exchange between enterprises through the exhibition of goods. Third, it provides a better understanding of the fluctuation in supply and demand relations so that stability and coordination departments can improve their dynamic equilibrium. This also provides a basis for the formulation of plans. Fourth, it can greatly reduce the need of a large number of purchasing and sales agencies and save a lot of money for the enterprises.

At present, there does not exist the enterprises' contact with their products through their selling. This is very bad, for with smaller enterprises and small cooperatives, business enterprises should offer only them to the market and not to the public directly themselves. No matter what form of marketing the enterprises adopt, it should not affect the fundamental and essential function and marketing contracts, nor should "sales storm" appear. This is mainly to prevent the market from being filled with inferior products and low quality. Therefore, regulations should be made for the enterprises selling the "good quality" products and to obtain extra incomes. This is similar to the quality of agricultural products. However, we must strictly bring the market to the control of market regulation and full play under the guidance of national planning.

3. In the circulation of goods, the traditional practice of allocating goods according to administrative divisions and the system to which an enterprise belongs should be replaced by goods allocation according to economic divisions. At present, the distribution and supply of goods is basically carried out according to administrative divisions or the system to which an enterprise belongs. Such means of circulation will inevitably avoid using the establishment of warehouses and reserves at every level and in every household. This will lead to an even larger increase in the goods holding quantity, and intensify the seriousness of intermediaries. In this case, the sharing of goods and warehouses has been considered successful. However, the social goods being stored here but nowhere else, they have been constantly on the edge. As soon as the goods are declared, new stock begins to pile on. This sort of management style has been an important factor in the contracted circulation and vicious overlocking of goods. If we say that the power for the distribution of goods is overconcentrated, then, on the contrary, it is too diffuse in supply, storage and circulation. This may manifest in the poor circulation links and serious transportation problems. For instance, the greater part of the steel produced by steel plants in the Sichuan area is transported to Chengdu to be distributed to enterprises throughout the country. But this single item has involved the transportation cost of 30,000 yuan for transportation. The provinces around Sichuan spend over 100 million yuan for goods however. At least 10 percent of the transportation cost can be saved if the flow of goods is more rational and the allocation more flexible. That amounts to more than 10 million yuan without taking into account the cost incurred by artificial goods storage within the various departments.

If such irrational situations are to be pacified, the limitations imposed by administrative divisions and the system in which the enterprises belong should be removed. Total authority should be set up within a reasonable radius for timely control in accordance with economic divisions. Large consignments of goods should be transported directly to the consuming unit by the suppliers. Small consignments should be supplied by the supplying depot or the consumer department. Each supply depot should order goods to local supply points and then turn to 800/900 enterprises in order to achieve this. Thus the planned distribution should fully realize the level of the central organization of industry, consumer supply points should reach the factory level. In terms of management, relevant departments at various levels should establish their financial, financial accounting and resource allocation, including the setting up of their warehouses and extend their functions to a higher degree. This should be done on the basis of not only the local and local administrative relations of goods enterprises, industrial enterprises, and control over the goods in the local industry and allowing the local authority to retain the authority. Then, the consumer units can buy right goods at right price convenient and reasonable for their original place (determined by the system of administrative divisions). According to a power relationship in the workplace

all the functions of the state, and the state, in turn, the state, should be able to provide 2000000000 yuan worth of technological fees and grants in the coming 10 years.

3. Resource enterprises should be merged. An enterprise and resource work should be used to manage work. Not only does resource management work have its own administrative and financial functions, but it also has to pay attention to the internal structure of the management units and their roles. Therefore, the various departments of Sichuan Province coordinate with the function of AMLBNS by the resource enterprises. In this way, the burden of the producer enterprises is not increased through additional charges. The income of resource enterprises should be commensurate with their management performance and contribution. It is likewise with the material interests of the enterprises and their staff. This can greatly motivate the enthusiasm of the enterprises and their staff in management.

4. A revenue department is put in the market; it can buy or use its owned assets. It can charge service fees for the services. On the other hand, it can also shoulder a certain degree of economic responsibility for its service. This will spur the resource enterprises to improve management through market rules. That is to say, they will try to purchase superior parts, supply goods at the right time, improve their service, accelerate goods circulation, economize on their expenditure, strive to provide the best service and seek what is in their best economic interest. This kind of competition in the realm of a market will in the long run spur competition among production enterprises. This will have the effect of spurring the development of innovation and technology. It is also beneficial in spurring the resource enterprises to improve the attitude of their service, realize their service functions and their marketability.

5. It is reasonable to charge service fees to resource units. For instance, in China, we can use it to better stimulate a proper relationship between the market and the market for public services. In this way, market rules that are in line with the market should be established. In addition, the staff's responsibility and reward in various units of public administration will also be strengthened. In a word, the staff of the market and the market administration should be combined.

## ECONOMIC PLANNING

### BEIJING BANKING BANK LAWS FOR PRIVATE BUSINESSES

OWJ 8078 (Set) in Chinese in English 07/25 AM 11 Aug 80

(Text) Beijing, August 15 (XINHUA) - Beijing now supports individual service businesses by financing them with loans and allowing them to take on apprentices.

This follows the resolution of the municipal People's Government to encourage retired workers and young people awaiting jobs to open their own businesses in order to meet social needs and supplement state-owned services.

Up to now, only two individual businesses have received bank loans. There are now over 900 household businesses in the city in about 48 trades. They include barbershops, laundries, cleaning and dyeing, tailoring, knitting, tire repair shops,

Wang Jilong, a 55-year-old skilled knitter, began a sweater-knitting service in early 1950's. During the Cultural Revolution he was forced to change his trade to shoe-repairing. Recently he was encouraged to re-open his original business.

He got 500 yuan from a local bank and purchased a knitting machine. With the help of his small workshop, he processes about 250 yuan a month. After paying his expenses, he keeps a monthly income of 730 to 840 yuan. He will get over 10,000 yuan by the end of this year.

"My customers can order the style of sweater they want," Wang Jilong said. "And I can do a fine job of work."

A spokesman for the commercial credit section of the Beijing branch of the People's Bank of China told XINHUA just this was the first time a bank had been granted a loan to a business since 1956. This is just the beginning. The government supports individual or family businesses.

"The principles on which the loans are extended," said the spokesman, "is that only those who have a service which is in short supply such as tailoring, are considered for loans. Quality is also important, that the

applicant be a Beijing resident and holds a business license issued by the district bureau of industry and commerce, that clear records of income and expenses be kept and that the business be conducted in conformity with state policies."

He said that generally loans are in small amounts around 1,000 yuan and are repayable within one year. The monthly interest rate is 0.42 percent, the same as for other industrial and commercial enterprises.

The bank spokesman stressed that the borrower must use the money to buy the things specified in his application. If he is found to have used the loan for other purposes or for speculation, the loan will be recalled through the guarantor. If the debtor fails to pay back the loan on time, legal means will be brought to bear.

CSO: 4020

ECONOMIC PLANNING

PRIORITY INCREASE OF MEANS OF PRODUCTION DEFENDED

Beijing JINGJI YANJIU (ECONOMIC RESEARCH) in Chinese No 7, 20 Jul 80  
pp 37-41

[Article by Wu Xiangheng [0002 6343 1813] and Chen Bogeng [7115 0130 1649] of Shanghai Normal University: "Has the Theory of Priority Increase of the Means of Production No Effect on Socialist Economy?--A Discussion with Comrade Zhu Jiazheng [2617 1367 2823]" ]

[Text] JINGJI YANJIU (ECONOMIC RESEARCH) No 12, 1979 carried Comrade Zhu Jiazheng's article "Does Priority Increase of the Means of Production Suit the Laws of Socialist Economy?"<sup>1</sup> which held that the theory of priority increase of the means of production suits only capitalist development at a certain stage, but not socialist economy. Apparently, this conclusion is directly related to the interpretation of the basis of this theory. Is the theory of priority increase of the means of production actually determined by certain relations of production or by the development of productive forces? Comrade Zhu Jiazheng's answer was vague. One part of his article said: "In the course of capitalist development, the law of priority increase of the means of production is decided by the capitalist mode of production." But another part of the same article said: "During the change of economic conditions even under the capitalist system, the law of priority increase of the means of production does not always apply." Obviously, the change of economic conditions here means the change in the development of productive forces instead of the change in the relations of production. If this theory is determined by the capitalist mode of production, then how can technological progress change the capitalist nature? If it is claimed that this was determined by the development of production techniques, then it has nothing to do with the nature of the mode of production; at least, the nature of the mode of production cannot play a decisive role. Thus his article has become self-contradictory.

1

The theory of priority increase of the means of production was first introduced by Lenin on the basis of Marx's theory of the reproduction of the total social capital, and after considering the factors in the rise of the

organic composition of capital under conditions of technological progress. Lenin pointed out: "This conclusion is directly based on a universally accepted theory: Capitalist production has contributed to the development of technology at a speed hitherto unprecedented."<sup>2</sup> Provided other conditions remain unchanged, the rise in the organic composition means the demand of accumulation is more urgent for the means of production than it is for consumer goods, and to comply with this demand, the priority in production should be accordingly adjusted. Comrade Zhu Jiazen designed a model in an attempt to prove that even though the organic composition is raised, there is no need for the priority increase of the means of production just because of accumulation. This model is not valid, because it cannot help Comrade Zhu Jiazen prove his point. On the contrary, it proves that when the organic composition is raised, expanded reproduction would be impossible without priority increase of the means of production.

Comrade Zhu Jiazen showed his calculations for only 3 years. If we will let the model run on for another 3 years, then we can see the problem.<sup>3</sup>

Fourth year:  $I 4870c + 1152v + 1152m = 7174$

$$II 2020c + 463v + 463m = 2946$$

~~18c~~  
 Accumulation 88c      c:v=8:1  
~~1m1152~~      10v  
 Consumption 1064

Accumulation rate 8 percent

$$14946c + 1162v + (1064m) = 7174$$

$$II2226c + 489v + (231m) = 2946$$

Fifth year:  $4948c + 1162v + 1162m = 7272$

$$II2226c + 489v + 489m = 3204$$

~~1162~~ No accumulation possible: all used for consumption

Accumulation 108c      c:v=9:1

~~1162~~      10v  
 Consumption 108c

Accumulation rate 22.1 percent

$$14948c + 1162v + 1162m = 7272$$

$$112324c + 499v + 381m = 3204$$

$$\text{Sixth year: } 14948c + 1162v + 1162m = 7273$$

$$112324c + 499v + 499m = 3322$$

$$1(v+m) = 1162 + 1162 = 2324$$

$$11c = 2324$$

From this, we can see that in the fifth year, accumulation was impossible because the first category cannot supply any means of production for this purpose. In the sixth year, the whole society can only maintain simple reproduction since accumulation is impossible. Therefore, this model cannot serve Comrade Zhu Jiashen's purpose in proving expanded reproduction, because it cannot prove that "technical progress, the rise of organic composition, and the priority growth of the first category are not necessarily related." On the contrary, it proves that technical progress and the rise of organic composition are impossible without the prior growth of the first category. If things will go on according to Comrade Zhu Jiashen's model, the society will some day come to a complete halt instead of making any progress. This is contrary to the law of historical development, and neither socialist nor capitalist history can turn out this way.

The model designed by Comrade Zhu Jiashen is applicable for 3 or 4 years simply because at the very beginning, the first category has already had sufficient priority growth. The annual output of the first category is 6,000, and the second category output is only 2250. It shows that this model is already predicated on the priority growth of the means of production. How can the use of such a model to disprove the need for priority increase of the means of production be convincing? If the first category is excessive as compared with the second category, then, within a certain period, it would be appropriate for the growth of the first category to slow down (even down to a point below the speed of the growth of the second category), and expanded reproduction based on a raised organic composition is still possible. But this would be an extraordinary case.

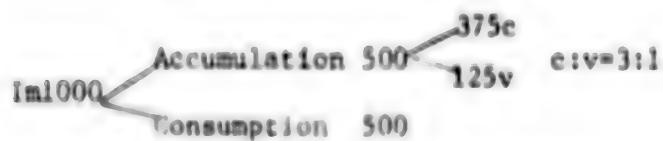
## II

In demonstrating the theory of priority increase of the means of production, Lenin assumed that accumulation began from the first category, and that accumulation for the second was passive. This assumption suits the nature of capitalist social reproduction. Since the purpose of capitalist production is the quest for surplus value instead of the satisfaction of people's needs, the increase of consumer goods cannot become the starting point of the entire social accumulation.

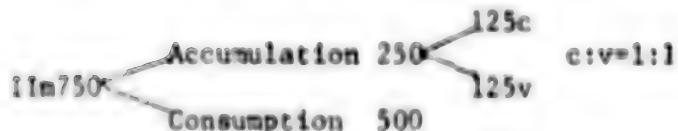
The beginning of accumulation from the first category is different from the priority growth of the first category. Nor is there any element of causality between them. The former shows the order of accumulation in the two categories which is determined by the nature of the relations of production; the latter shows the distribution of the amount of accumulation between the two categories which is determined by the change in the organic composition, or the development of the productive forces. If the organic composition continues to decline year after year, then accumulation cannot begin from either category, and there can be no priority increase of the means of production. Let us use the model of reproduction familiar to everyone as an example:

$$\text{First year: } 14000c + 1000v + 1000m = 6000 \quad c:v=4:1$$

$$111500c + 750v + 750m = 3000 \quad c:v=2:1$$



Accumulation rate 50 percent



Accumulation rate 33 percent

$$14375c + 1125v + 500m = 6000$$

$$111625c + 875v + 500m = 3000$$

$$\text{Second year: } 14375c + 1125v + 1125m = 6625$$

$$111625c + 875v + 875m = 3375$$

Accumulate rate:

$$\text{First Category } (6625 - 6000) / 6000 = 10.4 \text{ percent}$$

$$\text{Second Category } (3375 - 3000) / 3000 = 12.5 \text{ percent}$$

Here, accumulation begins from the first category and the accumulation for the first category is higher than that for the second category. But the rate of increase is higher in the second category than in the first category. If the model is altered to show an annual raise of the organic composition, the result of the computation will exactly demonstrate the theory of the priority

increase of the means of production. Provided there is a rise in the organic composition, priority increase of the means of production is necessary even though accumulation begins from the second category; otherwise social reproduction will be difficult. This also shown in the model designed by Comrade Zhu Jiazheng.

### III

The goal of socialist production is entirely different from that of capitalist production, because in the case of socialist production, the means of production only serves as a means of meeting people's consumption. Therefore, socialist accumulation should begin from the second instead of the first category. From the above analysis, we have already shown that the order of accumulation has nothing to do with the question of priority increase of the means of production. Therefore, there is no contradiction between the basic socialist economic laws and the theory of priority increase of the means of production.

The law that the national economy should develop in a planned and proportionate way is a special law of the socialist mode of production, and the system of socialist public ownership and socialized mass production is the material foundation of this law. According to this law, the national economy should develop in a planned and proportionate way instead of relying on competition and crises to maintain its equilibrium as in the case of capitalism. This law calls for only planned and proportionate development, but does not specify the contents of the proportion. The theory of priority increase of the means of production simply affects the contents of proportion, and is not concerned with the method used to achieve the proportionate development or with whether the required proportion is obtained in a planned or haphazard way. Incidentally, we may point out that in Comrade Zhu Jiazheng's opinion, the law of priority increase of the means of production under capitalist conditions would disrupt the objective proportionate relationship of the national economy. This statement deserves discussion. In fact, under capitalist conditions, the imbalance between the two major categories is determined by the law of surplus value. Therefore, what his article said about the "essential contradiction between the priority increase of the means of production on the one hand and the basic socialist economic laws and the law of planned and proportionate development on the other" is incorrect.

Imbalance between the two major categories under the socialist system occurs because people do not follow the objective socialist economic laws and the failure to follow the law of priority increase of the means of production is one of the causes. This imbalance can be manifested as either the excessive increase or the serious shortage of the first category products. If the imbalance manifested as the excessive increase of the first category products is a negation of the objectiveness of the law of priority increase of the means of production, then will a serious shortage of first category products, if this should ever happen, confirm the objectiveness of the same law. Obviously this is improper.

The theory of priority increase of the means of production is determined by the rise of the organic composition, which generally takes place along with the progress of technology. Should it ever happen that technology progress fails to bring about a rise of the organic composition, the theory of priority increase of the means of production will become inapplicable. Therefore, the key to the study of the special features of the law of priority increase of the means of production lies in an analysis of the features of change in the organic composition under the socialist system.

When analyzing the changes of the organic composition under conditions of capitalism, let us assume that the value of a unit of labor power is invariable. The material substance constituting the value of labor increases along with the development of the social economy, which in turn leads to a decline in the value of consumer goods. It is not unreasonable to assume that the levels of material consumption by a unit of labor power and the value of consumer goods can be invariable. Because of the basic socialist economic law under the socialist system, the material substance consumed by a unit of labor power should continue to increase with the development of the productive forces, and there is no further restriction from the concept of labor power as a commodity. Such a situation will slow down the rise of the organic composition and then lower the priority for the increase of the means of production. If there is no rise in the organic composition, then it would probably be unnecessary for priority increase of the means of production. Therefore, the oversimplified and sweeping statement that "objective socialist economic conditions have made the law of priority increase of the means of production inapplicable" is incorrect.

Under conditions of socialism, except for the portions corresponding to  $v$  where we must consider some factors which do not exist, or can be dismissed as abstractions under conditions of capitalism, the same situation exists in the portions corresponding to  $c$  and  $m$ .

There is no element of organic composition in  $m$ , but  $m$  has proportionate relationship with such an element, and this proportion is  $m'$ . In analyzing capitalist reproduction,  $m'$  is supposed to be invariable. Under conditions of socialism, the net output value is classified into remunerations for the laborers ( $v$ ) and net social income ( $m$ ). Supposing that the  $v$  of a unit of labor is invariable,  $m'$  ( $\frac{m}{v}$ ) will rise along with the rise of labor productivity. If the  $m'$  of the first category is raised, then it will mean that part or all the means of production required for expanded social reproduction will be supplied by the raised labor productivity of the existing enterprises of the first category instead of the expanded scope of production through additional investments in the first category. If the same condition exists in the second category, then no additional means of production is required for expanded social reproduction, and thus priority increase of the means of production will not be required as a rule for expanded social reproduction. Whether or not such a priority increase is necessary depends on the growth of  $m'$  in both major categories.

As to c, our discussion has actually dealt with the portion consumed in reproduction, or the portion of transferred value. The consumed c is not the same as the c taken up, because under ordinary conditions, the latter should be several times the former. In other words, in the process of reproduction, the difference in  $I(v+m) - Ic$  is only the expended portion of c but not the c taken up. In order that the value of this portion of c will become part of the value of products in the planned period, the amount of means of production must be several times larger than this portion of c. Therefore, the actual organic composition should be much higher than what is shown in the model.

There is another situation about c which should be considered, that is, investments on a project in a certain year does not mean that the project can be commissioned in the same year because of the long construction period, during which, there is only consumption of the means of production instead of any production. For many years in the past, we have constantly carried out construction in an attempt to increase the productive forces as planned. During the planned period, more construction projects are added in another attempt to increase the productive forces in the subsequent years. Thus there has only been consumption of the means of production instead of production of any kind. Therefore, to determine the increase of first category products, we should adjust the result worked out by the model for expanded reproduction on the basis of the actual situation, add to it the consumption of means of production in the investment intended for increasing the productive forces in the years following the planned period, and deduct the amount of depreciation on the investments made before the planned period on projects which, however, begin their operation during the planned period.

Summing up the above, we can say that the theory of priority increase of the means of production is still valid under the socialist system, although, in actual application, many factors have to be considered. The role of any social law is subjected to the effect of other social factors. Therefore, in studying the law itself, these factors should be considered as abstractions; otherwise we cannot demonstrate the role of any law at all. At present, while the eight-character policy of readjustment, restructuring, consolidation and improvement is being implemented, a discussion on the theory of priority increase and the summing up of historical experiences is quite necessary. However, we cannot blame the theory of priority increase of the means of production and reject this objective economic law simply because of people's inadequate knowledge of these laws and because of other subjective causes for the excessive investments in the first category products.

(24 March 1980)

FOOTNOTES

1. All unattributed quotations are from this article.
2. Lenin, "On the So-Called Market Problem" "Collected Works of Lenin" Vol 1, p 72.
3. For the period from the first to the third year, please read Zhu's article.

9411  
CSO: 4006

## ECONOMIC PLANNING

### COOPERATIVE NETWORK FOR HEAT TREATMENT SPECIALIZATION DISCUSSED

HK091246 Beijing JINGJI GUANLI (ECONOMIC MANAGEMENT) in Chinene No 7, 15 Jul 80 p 23

[Article by Yang Dexiang (2799 1795 0686]: "The Necessity of Specializing in Heat Treatment--On the Initial Success of Nanjing Municipality in Organizing a Cooperative Network for Specializing in Heat Treatment"]

[Text] To carry out specialized production, division of labor and coordination is the natural trend in the development of modern industry. At the present moment, our country has already entered into a new era of the four modernizations but some of our plants, mines and enterprises still linger in the stage of being omnipotent "large and comprehensive" or "small but comprehensive" units. Many plants still keep workshops, or sections, especially for the task of heat treatment. In this way, they seriously hinder the adoption of new techniques in this field and also obstruct the increase of labor productivity. However, some localities and enterprises which are gifted with foresight and can act promptly have firmly seized the principle of specialization and coordination and reorganized the heat treatment industry, accomplishing the feat of "achieving double the result with half the effort." Judging from the successes made by Nanjing Municipality in organizing a heat treatment specialization network, it is evident that heat treatment must be specialized.

Nanjing Municipality has some 147 plants and mines which operate their own heat treatment workshops (sections or units). They have a gross installed capacity of over 46,000 kilwatts, capable of a yearly output of only 26,000 tons. The common points of these heat treatment workshops are: the equipment for heat treatment is backward; over 93 percent of the equipment is 40 or 50 years old. These workshops are operated separately, are not centralized and the production scale is small: hence it is practically impossible to use high-efficiency equipment which can operate continuously. The utilization rate of the equipment is small, being less than 40 percent of the average. Because of the small output of the individual plants and mines, a large quantity of thermal energy is simply wasted in the furnaces and kilns; hence the waste of energy is enormous. Raw materials are seriously wasted,

technological control in the majority of plants and mines is poor, and technological rules are not observed; hence, product quality cannot be insured. In some of the plants and mines cyanide salt is used in the treatment process, thereby causing great environmental pollution.

In order to change these conditions, the economic committee of Nanjing Municipality decided to break through trade and ownership barriers and organized a heat treatment specialization network. This followed the principles of specialization and coordination. It formulated unified rules and called for a rational division of labor. In July last year, the first coordination center was set up at the Nanjing technological equipment plant. It had as its principal function the treatment of heat for normal uses. Plants and mines took part in the network, doing coordination work on a fixed basis. The initial results were found to be satisfactory. Consequently, in December another coordination center was established, this time at the Nanjing municipal weapons plant. This center was to handle the treatment of heat for chemical uses, with 44 plants and mines participating.

In performing the tasks of a heat treatment center, the Nanjing municipal technological equipment plant did courageous work. It showed its willingness to play a supporting role, vigorously strengthened production management, formulated and amplified a complete set of rules and regulations on specialized coordination. First, it established a "quality first" technological management system. Visits were made to various plants to find out their views on quality requirements. Spare parts for heat treatment equipment ordered by component units of the network were produced according to rigid technological requirements. Substandard products were not allowed to leave the plant. The center took up full responsibility for repairing or reassembling any products found faulty and returned because of technological defects. Second, contract provisions were strictly observed. Delivery of goods was made according to schedule. Ordinary goods were delivered in 3 to 5 days, and big orders, 5 to 7 days. As for urgently needed articles, the parties concerned would negotiate with each other on the time of delivery, it being understood that urgent orders would be urgently attended to. Arrangements were also made to gradually carry out the system of delivering the goods door to door, for the convenience of the client. Third, the principle of "a thin profit margin but plenty of sales" was firmly adhered to. It was also planned to reduce production costs so that prices could gradually be lowered.

Soon after the establishment of this coordination center, its superior points became evident. Last year, compared with the previous year, the number of heat treatment cases handled was doubled. The utilization rate of equipment jumped from 40 percent to over 50 percent, and there were nonstop furnaces in continuous production. At the same time, per unit electricity consumption was greatly lowered. The average quantity of electricity consumed to produce 1 ton of heat for treating spare parts

dropped from 3,300 units to 910 units. Electricity consumption could thus be reduced from 2 million kwh a year to 0.55 million kilowatt-hours. The per ton production cost dropped from 360 yuan to 220 yuan. In addition, economy was effected in manpower, equipment and plant premises. As a result of stopping some small plants from using cyanic chemicals in the technological process, not only was the quality of the products improved but a public nuisance was also eliminated. This was warmly welcomed by the masses.

In setting up a heat treatment specialization and coordination center dealing in specialized production to replace production by single items and in small quantities and also employing high-efficiency equipment to take the place of antiquated and backward technological equipment, Nanjing Municipality has achieved the objectives of increasing production, lowering production cost, curtailing consumption of fuels and raw materials and improving the quality of products. Actual practice thus confirmed that this was a road to achieving greater, faster, better and more economical results.

CSO: 4006

OLD RESIDENTIAL QUARTERS RENEWED IN BEIJING

OW061309 Beijing XINHUA in English 1255 GMT 6 Sep 80

[Text] Beijing, September 6 (XINHUA)--Beijing has set out to renew small, shabby residential quarters, many of which were built a hundred years ago.

By the end of July, 49 apartment blocks had been built on the sites of old courtyard houses, and 2,000 families have moved in. Most of Beijing's courtyard housing is still livable, but 27 of the old residential quarters, about 2,300,000 square meters, were too old to be repaired. Most of these houses, built of brick and mud, were small and shabby with no sewage pipes or running water.

In 1974, the city people's government appropriated funds and materials to replace the squalid housing. By the end of July this year, six of the 27 old residential quarters were completely renewed, with kindergartens, primary schools and shops set up. Total floor space built to date is 140,000 square meters. Another 24,000 square meters are under construction.

Li Zhongxiao, deputy head of the housing construction section of the Beijing Municipal Housing Administration, told XINHUA: "The average living space per person in the new quarters is about 6.7 square meters. In the old houses, they averaged 3.8 square meters."

The Beiyangfang in the west city district was an army garrison in the Qing Dynasty. The houses were small with thatched roofs and low ceilings, each only seven square meters. The courtyards were narrow, with no running water or sewage system. Heavy rains used to turn the place into a mud hole. Now all the small houses have been pulled down and 12 blocks of five and six story apartments have been built. More than 400 families have moved in.

Li Zhongxiao said, "Because of space problems, we have first to build a building, move the families in, then pull down their old houses and build another building on that space. It will take some time to transform all the old residential quarters, but we will make it."

ECONOMIC PLANNING

BRIEFS

COMMERCIAL WORKERS TRAINING--Harbin, 20 Aug--Guidelines for the education of workers in stores, hotels, banks and other service trades in China's large cities have been worked out at a conference held here, as part of a drive to upgrade the qualifications of commercial workers. The conference dealt specifically with education for commercial workers in 10 cities--Beijing, Tianjin, Shanghai, Guangzhou, Nanjing, Wuhan, Shenyang, Harbin, Xian and Chongqing. However, its recommendations are expected to be adopted as nationwide standards. A set of education regulations approved at the conference, aimed particularly at employees in service trades who began working after the start of the Cultural Revolution in 1966, requires commercial workers to undergo 500 hours of training to raise their general cultural level and 300 hours of professional study. More than 310,000 commercial workers in the 10 cities, or nearly half the total, already are attending various kinds of training classes. [Beijing XINHUA in English 0825 GMT 20 Aug 80 OW]

CSO: 4020

## GENERAL ECONOMIC INFORMATION

### BRIEFS

**NANCHANG INCREASED REVENUE**--Nanchang Municipality in Jiangxi has increased its revenue by big margins. In the first 7 months of this year, the municipality fulfilled 66 percent of the 1980 revenue plan, a 28 percent increase over the corresponding period of last year and an alltime high. At a related meeting recently held by the Jiangxi Provincial CCP Committee, Comrade Jiang Weiqing, first secretary of the provincial party committee, praised the Nanchang Municipal Financial Bureau and related departments in charge of economic affairs for having emancipated minds and taking a more flexible policy to support the development of production in enterprises. He called for economic departments at all levels in Jiangxi to proceed from the actual situation, further emancipate minds, take a more flexible policy, reform systems and make appropriate adaptations to enliven economic work. According to statistics, from January to July the municipality's industrial enterprises earned profits totaling 61.81 million yuan, a 62-percent increase over the corresponding period of last year. They delivered 49.56 million yuan to the state, which constituted 80.2 percent of the total profits earned by the enterprises and showed a 63.3 percent increase over the corresponding period of last year. [Excerpts] [OW051123 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 4 Sep 80]

**CAAC GUANGZHOU BUREAU**--By the end of July, the Guangzhou Bureau of the China Civil Aviation Administration had prefulfilled this year's profit plan 5 months ahead of time with the total amount of profits exceeding the target by 360,000 yuan. A 40-percent increase was registered as compared with the corresponding period of 1979. Aside from maintaining contacts with contracted passenger and cargo services, the bureau has also established relations with some 30 private travel services in Hong Kong in order to widen its scope of service. [OW010054 Beijing Domestic Service in Mandarin 0400 GMT 29 Aug 80]

**JILIN JOURNALISTIC COORDINATION**--JILIN RIBAO and other local papers held a conference on jurnalistic coordination in Yanji municipality 18-22 August. This conference discussed ways to publicize and enliven the economy. (Dong Shu), director of the propaganda department of the Jilin Provincial CCP Committee, addressed the conference. [Changchun Jilin Provincial Service in Mandarin 1100 GMT 26 Aug 80 SK]

HEILONGJIANG LABOR PROTECTION--The Heilongjiang Provincial Commercial Bureau, the provincial labor bureau and the provincial trade union council recently issued a joint circular calling for strengthening labor protection and ensuring supply of labor safety devices. The circular stresses the need to ban black marketing in labor safety devices. [Harbin Heilongjiang Provincial Service in Mandarin 1100 GMT 1 Aug 80 HK]

CSO: 4006

## FINANCE AND BANKING

### BEIJING EXPANDS NEIGHBORHOOD COLLECTIVE ENTERPRISES

OW280816 Beijing XINHUA in English 0739 CNT 28 Aug 80

[Text] Beijing, August 28 (XINHUA)--The Beijing municipal people's government is providing more low-interest loans in addition to tax exemptions for collective enterprises, enabling them to expand production and services and create more jobs for middle school graduates.

According to the municipal council for producer and service cooperatives, the total income of these enterprises in the first half of this year was about 173 million yuan and total profits came to 24 million.

New collectives provided jobs to more than 10,000 young people. As they expand, it is expected that they will take in 30,000 more by the end of this year.

There are some 2,500 collectively-owned enterprises and cooperatives in the ten districts of the city, employing a total number of 180,000 workers. Most of these units were set up after 1970 and quite a number have emerged since the beginning of last year. Many are concentrated in downtown shopping streets, railway stations and tourist centers.

The amount of loans provided to collectively-owned enterprises in Beijing in the first seven months of this year topped 17 million yuan, compared to about 943,000 yuan last year, said a spokesman for the commercial credit section of the Beijing branch of the People's Bank of China. The monthly interest on these loans remains at 0.36 percent, as against 0.42 percent for state-owned enterprises.

Cooperatives set up since 1979 and those whose new recruits of middle school graduates exceeds 60 percent of their total workforce are exempted from income tax in the first three years, the city government has decided.

These enterprises may cooperate with state enterprises in setting up retail or wholesale centers or may run their own outlets. In the past, they were restricted to processing for larger factories.

The government is providing collectives with technical assistance, offering them training courses for managerial staff and sending them retired engineers, technicians and former industrialists as advisers.

According to Wang Putian, an official of the city council for producers and service cooperatives, monthly pay for young workers in these units now averages 40 yuan, about the same as in state factories, offices and shops. Welfare benefits in some well-run units are not lower than state enterprises, and pensions are given to workers when retired.

Saying there are "broad prospects" for collectives, Wang Putian cited the Dazhalan multi-service center in the Xuanwu District as an example of successful rapid expansion. Starting as a tea shop a year ago, the center now has a staff of 180 and is handling more than 400 items. It has trade contacts with many units in Beijing and 22 other cities and provinces. Monthly turnover has gone up to 700,000 yuan.

CSO: 4020

## FINANCE AND BANKING

### BRIEFS

**QINGHAI PEOPLE'S BANK**--The Xining Municipal People's Bank, Qinghai Province, has exerted efforts to withdraw currency from circulation in order to stabilize market prices. The bank had withdrawn 17 million yuan during the first half of 1980. The bank has spared no efforts to make people realize the advantages of depositing their money in banks. This together with an increase in interest rates last April has contributed to a rapid increase in saving deposits, which stood at 7,429,000 yuan at the end of June. [SK310940 Sining Qinghai Provincial Service in Mandarin 2330 GMT 25 Aug 80]

**GUANGDONG HOLD CONFERENCE**--The Guangdong Provincial People's Government recently held a provincial conference on finance and trade in Guangzhou. The conference decided to further relax policy restrictions, reform systems and adopt practical measures to enliven the economy and market. Attending the conference were Yang Shangkun, Liu Tianfu, Wang Quanguo, Li Jianan, Huang Jingbo and Fan Xixian, leading comrades of the Guangdong Provincial CCP Committee and the Provincial People's Government. Vice governors Yang Shangkun and Liu Tianfu spoke at the conference. Vice governor Fan Xixian made a summation on behalf of the Provincial People's Government. The conference discussed issues concerning the policy on readjusting the purchasing prices of agricultural and sideline products. [Excerpts] [HK031503 Guangzhou City Service in Cantonese 0430 GMT 3 Sep 80]

**NORTHWEST SAVINGS CONFERENCE**--The first session of a conference for five northwestern provinces and autonomous regions to discuss the promotion of savings deposits was recently held in Urumqi. It is reported that the branches of the People's Bank of China in northwestern provinces and autonomous regions have vigorously promoted savings over the past 2 years and more. In the first 7 months of this year, savings deposits for the whole northwestern region increased by some 140 million yuan over the corresponding period last year. [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 28 Aug 80 OW]

BANK INTEREST RATES--Beijing, 1 Sep--Effective 1 September, the People's Bank of China will pay interest, at a rate of 1.5 percent per month, on deposits in accounts of various enterprises and accounts of their competent authorities. Meanwhile, beginning 1 September, this bank will grant loans to those individual business operators who have business licenses and who are capable of repaying such loans. The interest rate of the loan is 4.2 percent monthly. [Beijing XINHUA Domestic Service in Chinese 1438 GMT 1 Sep 80 OW]

ZHEJIANG BANK LOANS--According to a statistics by the Zhejiang Provincial Bank of Agriculture, as of the end of July, credit cooperatives in rural areas throughout the province had extended 16.87 million yuan loans to individual peasants for promoting production and improving livelihood. The figure was 6.82 million yuan more than the same period last year. Of the loans, 56 percent had been used for developing family sideline production while 44 percent had been used to meet incidental expenses in daily life. [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 1 Sep 80 OW]

CSO: 4006

## FUELS AND POWER

### BRIEFS

HYDROELECTRIC POWER STATIONS--Beijing, August 16 (XINHUA)--The Chinese Ministry of Water Conservancy said today that more than 1,700 small hydro-electric power stations with a total generating capacity of 319,000 kilowatts throughout China were built in the first half of this year. This was 15 percent more than the same 1979 period. China now has more than 89,000 small hydro-electric stations with a total generating capacity of 6.63 million kilowatts, providing about 40 percent of electricity used for agriculture. [Text] [Beijing XINHUA in English 0148 GMT 16 Aug 80]

NINGXIA POWER GENERATING UNIT--Yinchuan, 10 Aug--Two 50,000-kilowatt power generating units have gone into operation at the Shizhishan power plant in China's smallest autonomous region where the Hui people live in compact community. A 75.5-kilometer-long high tension transmission line will soon be commissioned to bring electricity from the plant to Yinchuan, capital of the region. The new generating units will help relieve power shortage in the region during low water seasons when hydroelectric power stations on the Yellow River are running under capacity. [Text] [OW111607 Beijing XINHUA in English 0308 GMT 10 Aug 80]

QINGHAI POWER STATION--Xining, August 22 (XINHUA)--A cofferdam has been completed on the upper reaches of the Yellow River to protect the construction site of a major hydroelectric power station at Longyang Gorge. The 54-meter high cofferdam, of rock fill with a concrete core, will guarantee smooth construction of the main dam in the project even if a serious flood occurs. The foundation of the main dam already is under way. The cofferdam also will help regulate water flow during flooding season and reduce the spate on the river's lower reaches. The flooding season will arrive in September this year and the flow at the Longyang project may reach up to 3,160 cubic meters of water per second. A reservoir with a 400-million-cubic-meter capacity will take shape on the upper reaches of the cofferdam during the floods. The 26,000 inhabitants within the reservoir area have been relocated and historical relics moved as well. The Longyang Gorge Hydroelectric Power Station, with a designed generating capacity of 1.6 million kilowatts, is the second biggest in China at present, next only to the Gezhouba Hydroelectric

Power Station now under construction on the Yangtze River. The project will include what will be China's biggest artificial lake, covering 383 square kilometers with a storage capacity of 24,700 million cubic meters. [Text] [OW241109 Beijing XINHUA in English 0719 GMT 22 Aug 80]

GUANGXI POWER STATION--Nanning, August 24 (XINHUA)--More than 700 small hydro-electric power stations with a total generating capacity of 172,500 kilowatts are being built in Guangxi Zhuang Autonomous Region, south China. The region already has more than 12,000 such stations with a total generating capacity of 620,000 kilowatts, producing 1,100 million kilowatt-hours of electricity annually. With little coal but abundant rivers, the region has emphasized the exploitation of its rich water resources for power. Still, just a fraction of the potential--some 17 million kilowatts--has been tapped. Over the past three years, an average of 70,000 kilowatts of generating capacity have been added each year. Now 50 of the region's 80 counties rely mainly on small hydro-electric stations for electricity supply. In addition, a 400,000-kilowatt hydro-electric power station at Dahua on the Hongshui River, one of the major rivers in Guangxi, is now under construction. Several other big power stations are scheduled to be built. [Text] [OW241100 Beijing XINHUA in English 0738 GMT 24 Aug 80]

HUBEI POWER STATIONS--Wuhan, 30 Aug--Thirty-four small power generation stations using marsh gas as fuel have been built in rural Hubei. The total installed capacity of these power stations is 297 kilowatts. Four more such power stations are being built and are expected to start operation by the end of 1980. [OW301715 Beijing XINHUA Domestic Service in Chinese 0129 GMT 30 Aug 80]

HYDROPOWER MEETING--Recently, the Beijing radio station and the Ministry of Water Conservancy invited representatives from units throughout the country that scored greater achievements in the development of small hydropower plants to a discussion meeting on energy problems in the rural areas. Representatives from Tongcheng County, Hubei; Suining County, Sichuan; and Yangshan County, Guangdong introduced their experiences, stating that the advantages of building such plants are less investments, faster results, lower costs and easier construction conditions. According to statistics, there are more than 90,000 small hydropower plants in the country with a total generating capacity of 10 billion kwh, accounting for 37 percent of the total power consumption in the country's rural areas. [Beijing Domestic Service in Mandarin 1200 GMT 24 Aug 80 OW]

ZHEJIANG HYDROELECTRIC PROJECT--Jinyun County in Zhejiang Province has completed a hydroelectric power project with an installed capacity of some 7,500 kw. It can generate some 23 million kwh of electricity annually. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 20 Aug 80 OW]

DAQING AUGUST PRODUCTION--Daqing Petroleum Administrative Bureau, Heilongjiang Province, overfulfilled its August production plan, producing in excess of 1,000 tons of crude oil daily. Compared with the corresponding 1979 period, its crude oil output increased by 1.95 percent in August. [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 3 Sep 80 SK]

LIAONING ENERGY UTILIZATION--The Liaoning provincial energy leading group held an enlarged meeting recently calling for efforts to increase the energy utilization rate from the present 30 percent to 40 percent in the next 10 years. It stated that the reform of industrial structure, and technical innovations aiming at saving energy are encouraged. The meeting also urged efforts to increase the proportion of light and textile industries in the entire industry from the current 30 percent to 40 percent by 1985. [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 2 Sep 80 SK]

ENERGY-SAVING EQUIPMENT--Changsha, 29 Aug--At the national machinery and electrical equipment trade fair which opened on 11 August in Changsha, Hunan, a variety of energy-saving equipment attracted the attention of prospective buyers. The equipment included several models of boilers which use poor-quality coal or gangue mined from collieries as fuel or which use the exhaust heat from cement kilns or blast furnaces as energy sources. A silicon-controlled transformer-rectifier made by Xian rectifier plant can save a lot of electricity. Using this transformer-rectifier, a caustic soda plant of 100,000-ton-per-year capacity can save an estimated 4.3 million kwh of electricity annually. Other energy-saving devices displayed at the trade fair include an electricity-saving device used in electric welding and an oil extractor which purifies waste oil for reuse. [OW291147 Beijing XINHUA Domestic Service in Chinese 0123 GMT 29 Aug 80]

CSO: 4006

MINERAL RESOURCES

BRIEFS

LIAONING GOLD PRODUCTION--The Dongwujiazi gold mine jointly operated by Chaoyang County authorities and Dongwujiazi Commune, Liaoning Province, sold 1,185 liang of gold to the state in the first 8 months of 1980. Its sale is worth 380,000 yuan from which the mine has earned profits of 60,000 yuan. [Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 2 Sep 80 SK]

CSO: 4006

## HEAVY INDUSTRY

### BRIEFS

**GUANGDONG CONSTRUCTION MATERIALS**--From January to July 1980, the people in Guangdong produced 2.73 million tons of cement and 248,000 standard boxes of glass panes. This was an increase of 15.1 and 5.4 percent respectively over the corresponding period of last year. During the same period, the 22 state brick and tile plants produced 370 million blocks of red bricks, an increase of 20 percent. According to 7 provincial cement plants, consumption of coal and electricity for the production of every 10,000 yuan worth of products was reduced by 11.9 and 5.3 percent respectively, while profits increased by 2.2 times. [HK290820 Guangzhou Guangdong Provincial Service in Mandarin 1120 GMT 24 Aug 80 HK]

**QINGHAI AUTO INDUSTRY**--Since the beginning of 1980, the auto industry has steadily developed in Qinghai Province. By the end of July, 725 motor vehicles were produced in the province. Total industrial output value of auto enterprises throughout the province increased 25 percent over that of the same 1979 period, earning some 1.7 million yuan. [SK021204 Sining Qinghai Provincial Service in Mandarin 2330 GMT 24 Aug 80 SK]

**SHANDONG INDUSTRIAL STRUCTURE**--Shandong Province had adjusted the proportion between light industry and heavy industry, from 45 percent versus 55 percent in 1978, to 48.5 percent versus 51.5 percent by the end of July 1980. It has also increased the variety and quality of products and lowered energy consumption. Raw coal consumption for 1 yuan of output value had been reduced from 113,000 tons in 1978 to 103,300 tons by the end of July 1980. The province has reorganized the structure of industry. A total of 482 enterprises have been closed down, suspended, merged or ordered to change their production in the past year and many integrated complexes have been established. The total industrial output value increased by 5.8 percent in 1979 as compared with 1978 and by 13.1 percent in the January through July period of 1980 as compared with the corresponding 1979 period. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 2 Sep 80 SK]

**ZHEJIANG SAFETY MEASURES**--The party committee of the Zhejiang Provincial Petrochemical Department held a cadres meeting to discuss the State

Council decision on the Bohai No 2 oil rig accident. Cadres, engineers, technicians and workers of the department and units under the department pledged to support the decision and learn from the lesson of the accident by paying keen attention to safety in production. While studying the decision, they analyzed problems existing in safety in the production and mapped out some measures for improvement. At present, accidents often reported by petrochemical plants in Zhejiang are caused by inadequate rules and regulations, failure to observe rules and regulations, low technical standards, or the leadership's negligence of safety in production in some enterprises. In this connection, the provincial petrochemical department issued a circular, urging all units and enterprises under the departments to carefully examine their safety measures in production. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 29 Aug 80 OW]

CSO: 4006

## CAPITAL CONSTRUCTION

### BRIEFS

**MORE TOURIST HOTELS**--Beijing, August 23 (XINHUA)--China's tourist departments have signed a number of agreements with overseas firms to build 20 hotels in various tourist centers to help solve the hotel shortage problem in China nowadays, according to the general administration for travel and tourism. Eight hotels with a total of 880 rooms are already in service; six with a total 2,889 rooms are under construction; and work will start soon on the remaining six, which have a total 5,760 rooms. Talks are under way on more hotel construction with overseas investment and participation. The tourist department also has its own all-China hotels program. So far five, with a total 956 rooms, have been built in different parts of China and another 19, with a total 5,750 rooms, are under construction. Since last year more than 50 guest houses, with a total 10,000 beds, have been opened to tourists. [Text] [Beijing XINHUA in English 0817 GMT 23 Aug 80 OW]

**JILIN RURAL HOUSING PROJECT**--Jilin Province has made marked achievements in building living quarters in rural areas. According to preliminary statistics, the housing units built for rural commune members between 1975 and 1979 totalled 1.96 million square meters in floor space. Some 58,900 rural households have moved into new quarters. [Beijing Domestic Service in Mandarin 0400 GMT 10 Aug 80 OW]

CSO: 4006

DOMESTIC TRADE

BRIEFS

HEILONGJIANG OPENS MORE MARKETS--The Standing Committee meeting of the Harbin Municipal CCP Committee, Heilongjiang Province, was held on 2 September. It was decided at the meeting that Harbin would open another 14 markets for farm and sideline products in addition to its original 18 markets. In this way, every 70,000 people in Harbin will have a market. The Harbin Municipal CCP Committee also decided to set up a group leading the work of establishing markets. Second Secretary (Wang Zhao) of the Harbin Municipal CCP Committee will serve as leader of the group and the municipal mayor Wang Huacheng and others will serve as deputy leaders. [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 2 Sep 80 SK]

TIANJIN GRAIN COUPONS--Between 1 September and 31 December 1980, the Tianjin Municipal Grain Department has decided to recall the old national grain coupons published in 1955. During the given period, the citizens of Tianjin may exchange their old coupons for the new ones published in 1966 at their affiliated grain shops. Food services trades and collectively owned mess halls may exchange their 1955 coupons for 1966 ones or settle their accounts with these old coupons at the grain department from 1 January 1981. The grain department stressed: The circulation of 1955 coupons among citizens will be completely halted on 1 October this year. The exchange measure adopted by the municipal grain department is simply due to the fact that the old grain coupons published in 1955 are too old to use. [Tianjin City Service in Mandarin 2330 GMT 30 Aug 80 SK]

CSO: 4006

## FOREIGN TRADE

### BRIEFS

SHANGHAI GARMENTS EXPORT FAIR--Shanghai, August 21 (XINHUA)--The largest garments export trade fair held in China in 14 years closed here Wednesday, having drawn more than 1,500 businessmen from five continents, Hong Kong and Macao. Attendance at the 20-day fair, which was sponsored by the China National Textiles Import and Export Corporation, was four times that of the last fair held in 1966. The total value of business transactions this time was 62 percent higher than expected, and more than 30 times the figure for the 1966 fair. Among the 10,000 items displayed at the fair were woven garments, knitwear, cotton and silk goods, Shanghai-tailored suits, embroidered blouses and woolen blankets. [Text] [OW241151 Beijing XINHUA in English 1217 GMT 21 Aug 80]

SHANGHAI TEXTILE MACHINE EXPORTS--Shanghai, 30 Aug--Shanghai's China Textile Machinery Plant produces 50 kinds of automatic looms, of which some 30 kinds are exportable. In recent years the plant has yearly exported 6,000 cotton looms and 1,000 tons of parts to some 10 countries and regions. [OW301715 Beijing XINHUA Domestic Service in Chinese 0139 GMT 30 Aug 80]

WELDING RODS FOR EXPORT--The Beijing Welding Rod Plant has been able to turn out welding rods of export quality ahead of schedule, and will export more than 1000 tons of welding rods for the first time this year. In the past, the quality of the welding rods was not good enough for export, so the leaders and technicians of the plant, using only domestic raw materials, upgraded their technology and equipment and were eventually able to achieve tremendous improvements. The welding rods produced by this plant are now comparable in quality to those produced abroad. [Text] [Beijing BEIJING RIBAO in Chinese 15 Aug 80 p 2]

CSO: 4006

TRANSPORTATION

BRIEFS

HEBEI HIGHWAY CONSTRUCTION--Beijing, 29 Aug--The capital Construction Corps is stepping up the building of the Dahaituo-Luanping Highway in Hebei Province. The 197-kilometer highway starts from Chicheng County's Dahaituo and ends at Luanping County, passing through Yanqing and Huairu counties in suburban Beijing. So far 177 tunnels and 9 bridges have been built. [Beijing XINHUA Domestic Service in Chinese 0110 GMT 29 Aug 80 OW]

LANZHOU AWARDS MEETING--The Lanzhou Civil Aviation Bureau recently decided to commend pilot (Lan Baoshun) and his assistants for their brave action in a 5 August accident. When their plane reached an altitude of 3,400 meters, the engine malfunctioned and the cabin filled with smoke. Risking their lives, they did their best to land the plane safely. To commend their model performance, the CCP Committee of the Lanzhou Civil Aviation Bureau decided to grant (Lan Baoshun) the merit of first grade and a bonus of 100 yuan. His assistants each received a citation and a bonus of 70 yuan. [Lanzhou Gansu Provincial Service in Mandarin 1125 GMT 28 Aug 80 SK]

CSO: 4006

## PUBLICATIONS

### 'RENMIN RIBAO' CARRIES CONTENTS OF MANAGEMENT JOURNAL

HK041318 Beijing RENMIN RIBAO in Chinese 30 Aug 80 p 7

[Table of contents of JINGJI GUANLI No 8 of 1980]

[Text] Economic Commentary by Zhou Chuan [0719 1557]: "Looking at the Power of Policies From China's Increase in Agricultural Production"

Investigative report by He Dazhang [0149 1129 4545]: "Why Could the Beijing Kinescope Plant Not Fly Even Though It Was Given Wings?"

Article by Wang Dingfeng [3769 0002 7364]: "A Trial Discussion on the Qualities of Enterprise Leadership Cadres and the Art of Leadership"

### Forum on Reform in Management System

Article by JINGJI GUANLI editorial board: "Some Questions Which Must Be Further Studied in Reforming the Economic System"

Article by Liu Kexun [2692 0344 8113]: "Regulation Through Market Proces Has Enlivened the Economic Activities of the Iron and Steel Industry"

### Enterprise Management and Administration

Article by Liu Chunqin [0491 2504 0530]: "How Does the Tianjing XINHUA Food Products Factory Make Market Forecasts?"

Article by Mo Hailong [5459 3189 7893]: "The Shanghai Motor Vehicle Electrical Equipment Plant Scores Success in Carrying Out 'Value Engineering' Activities"

### Basic Knowledge in Management

Article by Shan Daming [0830 1129 2494]: "Value Engineering and its Application in Industry"

Free Talk on Ideology by He Yi [0149 0110]: "The Idea of 'Modernization' and How To Realize It"

**Review of Foreign Management Experiences**

**Article by Qi Ye [2058 2814]: "The Management and Administration of Japan's Mikoshi Emporium"**

**Article by Jiang Jiping [5592 4949 1627]: "Foreign Enterprises Adopt the 'Rolling Method' in Drawing Up Plans"**

**Question and Answer by Zhao Renwei [6392 0086 0251]: "What Is Market Mechanism?"**

CSO: 4006

PUBLICATIONS

BRIEFS

MECHANICS WEEKLY--Beijing, 2 Sep--JIXIE ZHOUBAO [THE MECHANICS WEEKLY], a journal of the Chinese Machine-building Industrial Department, started publication in Beijing on 2 September 1980. The journal deals with the production and market demand of mechanical and electrical products at home and abroad. It also introduces new products, new technology and enterprise management experience in the machine-building industry. [Beijing XINHUA Domestic Service in Chinese 0732 GMT 2 Sep 80]

NATURAL SCIENCE CHRONICLE--Shanghai, 1 Sep (XINHUA)--CHRONICLE OF NATURAL SCIENCES IN CHINA, 1979 has been published by the Shanghai Science Publishing House. The publication reviews China's achievements for the period 1949-1979 in nuclear energy, semiconductors, lasers, mathematics, astronomy, psychology, traditional Chinese medicine and other fields. Included are 18 special reports by noted scientists Yan Jici, Wang Ganchang, Huang Kun, Su Buqing and others. The latest scientific advances at home and abroad are discussed in 55 papers. The CHRONICLE introduces 236 Chinese science magazines and 23 local science papers and carries 86 obituaries of late Chinese scientists. [Text] [OW030357 Beijing XINHUA in English 0700 GMT 1 Sep 80]

NEW SCIENCE JOURNAL--Beijing, 23 Aug (XINHUA)--The No 1 issue of HISTORICAL MATERIALS ON CHINA'S SCIENCE AND TECHNOLOGY was published in August 1980 by the China Science Popularization Publishing House. The purpose of this new journal is to help readers understand the historical background of China's science and technology and their development trends. The No 1 issue of the journal contains an article by Zhou Enlai on the scientific spirit of Marxists. Entitled "Religious Spirit and Communism," the article says what Marxists believe is science, not anything that goes beyond the scope of reason. Therefore, communist leaders must not be idolized or revered like the Roman Pope. Zhou Enlai wrote this article in Europe during his youth. The article was first published by a Chinese youth magazine in September of 1922. [OW241207 Beijing XINHUA Domestic Service in Chinese 0119 GMT 23 Aug 80]

CSO: 4006

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